

Stepping beyond the niche: unlocking the potential of Swiss impact investments

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by

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Executive Summary

Interest in impact investing is gaining momentum, as it increasingly becomes an essential element of sustainable development cooperation. Yet in Switzerland, impact investing is still a relatively small part of the overall investment landscape, accounting for only 1.3% of investments under management in 2019. While their current market share is low, the sector is growing significantly, having tripled in 2020 compared to the previous year. This trend reflects the growing recognition of the potential that impact investing has, as well as its increasing appeal to investors seeking to align financial returns with measurable positive social and environmental outcomes.

This study explores the limited uptake of impact investing in Switzerland and proposes strategies to foster its wider acceptance. The research highlights the challenges and opportunities associated with impact investing, as well as the risks associated to those investments. The findings reveal several barriers to the expansion of impact investing in Switzerland. Limited awareness among investors, coupled with risk aversion, are amongst the factors that inhibit its adoption. Greenwashing practices and illiquidity further impede growth. Concerns regarding potential low risk-adjusted returns create a perception of a trade-off between financial gains and impact achievement, limiting investor enthusiasm.

However, there are opportunities for the expansion of impact investing. Establishing a supportive regulatory environment and standardised measurement practices can enhance transparency and credibility. The transfer of wealth to younger generations, who prioritise sustainability, presents a driver for expansion as their influence in investment decision-making grows. The motivations of investors also play a significant role in driving adoption, with many seeking to align their financial activities with their values and contribute to positive social and environmental outcomes. Promoting impact investing effectively requires showcasing successful examples, delivering financial returns alongside measurable social or environmental outcomes. Moreover, increasing awareness across sectors, including academia and financial institutions, can dispel misconceptions and attract more individuals and organisations. Addressing these factors can pave the way for wider adoption and mainstreaming of impact investing in Switzerland, contributing to sustainable development goals and fostering a more equitable and environmentally conscious global society.

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1. Introduction

Over past few years, the world has witnessed profound shifts caused by major global events, including biodiversity loss, resource scarcity, economic instability, geopolitical conflicts, and most importantly, the escalating climate crisis. In this rapidly changing context, these transformative forces have compelled financial markets to recognize the growing significance of incorporating social and environmental impacts into their decision-making processes. Key milestones, such as the Paris climate summit and the adoption of the UN 2030 Agenda for Sustainable Development in 2015, endorsed by all member states, have also played a crucial role in raising awareness of environmental, social and governance (ESG) considerations within investment strategies. As a result, Switzerland has seen a significant surge in sustainable investment (SI) in recent years, with market participants increasingly adopting the integration of sustainability criteria into their investment practices.

In particular, Impact Investing represents a paradigm shift in financial markets as it seeks to integrate financial returns with a positive social and environmental impact. Thus, impact investing is perceived as a mean of advancing the UN Sustainable Development Goals and contributing to the global efforts for a better world by addressing critical global issues (GIIN 2022a).

Despite the growing interest in sustainable investment, impact investments remain a relatively small segment of this investment landscape in Switzerland. The limited adoption of impact investment is a matter of concern for many stakeholders, given the potential it has to drive positive social and environmental outcomes. In this context, the present study seeks to explore the reasons behind the limited uptake of impact investment and to identify strategies that can foster its wider adoption. By shedding light on the barriers and opportunities associated with impact investing, this study aims to contribute to the ongoing discourse on sustainable finance and to offer insights for policymakers, investors, and other stakeholders seeking to advance the agenda of sustainable development.

The following are the main research questions that will guide the study:

How can Swiss impact investing find a way out of its niche?

This first research question will be answered by addressing the following sub-question:

- a. What is impact investing, and how does it differ from traditional investment strategies?
- b. What is the Swiss impact investing landscape and what factors have contributed to the growth of impact investing?
- c. What investment instruments are available for impact investing?
- d. What are the challenges and limitations facing the growth and adoption of impact investing in Switzerland?
- e. What are the risks and opportunities associated with impact investing?
- f. What drives investors to engage in impact investing, and how do their motivations vary across different types of investors?
- g. What role can the Swiss government and regulatory bodies play in promoting the growth of impact investing in Switzerland, and what policy initiatives have been implemented to date?

By addressing the aforementioned questions, impact investing may be equated to other investment strategies and unleash the market's greatest potential to address the world's environmental and social issues.

2. Literature review

Impact investing has emerged as an increasingly popular and significant approach to investing, with the goal of generating positive social and environmental outcomes alongside financial returns. Compared to other countries, Switzerland's position as a global financial hub has propelled the country to the forefront of the impact investing movement, capturing the attention of investors and stakeholders around the world (de Sá Kirchknopf 2021). This literature review examines the current state of impact investing, including its challenges, opportunities, and risks, in order to shed light on its unique features and potential for growth. Specifically, it explores the existing literature on the topic of Swiss impact investing, with a focus on its development, the current landscape, and its key players and initiatives. By synthesizing the literature on this important topic, this review aims to provide a comprehensive overview of Swiss impact investing, which can inform and guide future research and practice in the field.

In recent years, there has been a substantial increase in interest and activity around impact investment as corporations, governments, and societies develop alternative ways to promote an equitable and sustainable society within the context of social and environmental concerns. However, due to the novelty of the field, academic literature on impact investment remains limited and fragmented. Hence, there is still little consensus on a variety of aspects of impact investing, starting with the lack of a consistent definition and terminology.

Impact investing literature generally presents an optimistic and positive outlook for the sector's future (Clarkin, L. Cangioni 2016). Few studies, however, also discuss the numerous obstacles and challenges that remain present and prevent the development of impact investment (Ormiston et al. 2015; McCallum, Viviers 2020).

2.1 What is impact investing?

The concept of impact investing has evolved from the sustainable investment trend that began in the 1970s with the Socially Responsible Investment (SRI) movement. It was characterized by the adoption of negative or exclusionary screening techniques intended to exclude specific assets using ESG criteria such as ethical beliefs, regulatory obligations moral values or norms and standards. Asset selection was therefore based on "best-in-class" (positive) screening. This consisted of ensuring that the investment were made in companies or projects that have showed good ESG performance and compliance to norms linked to environmental protection, civil rights, and work conditions (PhD Gutterman 2020).

The Rockefeller Foundation introduced the term "impact investment" in 2007. Today, there still is a lack of consensus and clarity related to the definition of impact investment, primarily caused by vague typological boundaries, and overlapping use of different terms that are linked to sustainable finance. Establishing a common terminology is essential for scoping and assessing the market and would help policymakers, practitioners, and researchers (Höchstädter, Scheck 2015). Due to this confusion, a clear definition of impact investing is essential to ensure clarity in this paper.

Based on the definition given by Swiss Sustainable Finance (2022), impact investment refers to:

"Investments intended to generate a measurable, beneficial social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below-market to above-market rates, depending upon the circumstances".

(SSF, 2022)

Impact investment aims to create direct positive social and/or environmental impact by determining and addressing a specific social and/or environmental challenge. As such, impact investors are those that use a unique approach that focuses on social-benefit outcomes, placing less emphasis on their return objectives, or those who are willing to "pay" for externalities by accepting a return that is below the market (Geczy et al. 2021).

The following fundamental characteristics of impact investing have been identified by the Global Impact Investing Network (GIIN), an international organization that serves as a leading advocate and facilitator for impact investing:

Table 1 : Elements of impact investing (GIIN 2022a)

Intentionality	Impact investors invest with the intent to have a positive social or environmental impact through their investments.
Expectation of Financial Returns:	Impact investments are not grants that do not need to be repaid investors expect a financial return on their capital or, at minimum, a return of their capital.
Range of Return Expectations and Asset Classes	Impact investments include a wide range of financial returns, from below market to risk-adjusted market rates (with approximately two-thirds of the capital targeting risk-adjusted market rates). These investments span various asset classes, including cash equivalents, fixed income, venture capital, and private equity.
Impact Measurement	A key aspect of impact investing is the investor's dedication to measuring and reporting the social and environmental performance of underlying investments. This commitment ensures transparency, accountability, and informs the practice while fostering the growth of the field.

While the term was only coined relatively recently, the idea of aligning investment decisions with social and environmental goals has a long history. Today, impact investing encompasses a range of strategies and approaches, each with its own unique characteristics and challenges.

There are numerous different terms and concepts associated with impact investing. The diverse use of terminology, as well as the absence of defined boundaries between comparable concepts, can result in inaccurate and ambiguous use of them. Social

finance, SRI, venture philanthropy, are all concepts that generally overlap or complement impact investing and may differ in interpretation.

SRI is closely related to impact investing as it involves taking into account ESG factors in investment decisions. It is an umbrella term which covers the interests of various stakeholders, such as banks, governments, institutional investors, socially responsible mutual funds and it includes sustainable investment strategies such as impact investing (Agrawal, Hockerts 2021). Although similar, it is critical to distinguish these two notions for the sake of this research.

The difference lies in the fact that impact investing, in comparison to SRI, is a type of investment that is more proactively focused on corporations that are dedicated to generating both social and financial benefits (GIIN 2022a). Compared to impact investors, SRI investors are not as committed, and use it more as a strategy to reduce risk and generate higher returns (Guttermann 2020). This assessment counters the idea that SRI can be considered the same as impact investing (Agrawal, Hockerts 2021). In addition, in order to invest responsibly, SRI applies negative or positive screening. The investing selections are significantly influenced by social rating agencies' evaluations¹. Furthermore, the size and nature of the investments vary between impact investing and SRI, as SRI is usually associated with publicly traded funds, stocks and bonds, and tends to focus on large corporations (Höchstädter, Scheck 2015). Impact investing, on the other hand, often targets smaller businesses and makes direct investments with private funds. According to Höchstädter and Scheck (2015), impact investment and "*social finance*" are equivalent terms as impact investing consists of a subtype of social finance.

Finally, venture philanthropy and impact investing have some common features in the sense that in both cases, investments capital is used for philanthropy endeavours. However, the distinction is found in the fact that venture philanthropy emphasizes engagement, whereas impact investing puts more focus on a particular investment and the returns that comes with it in a social perspective (Schnoll 2022). In other words, the primary objective in venture philanthropy would be to maximize social return on investment (ROI) while also establishing accountability among the investors, however without stressing any financial ROI (Defourny, Nyssens, Thys 2013).

¹ Examples of such social rating agencies include MSCI ESG Research, Sustainalytics, and FTSE Russell.

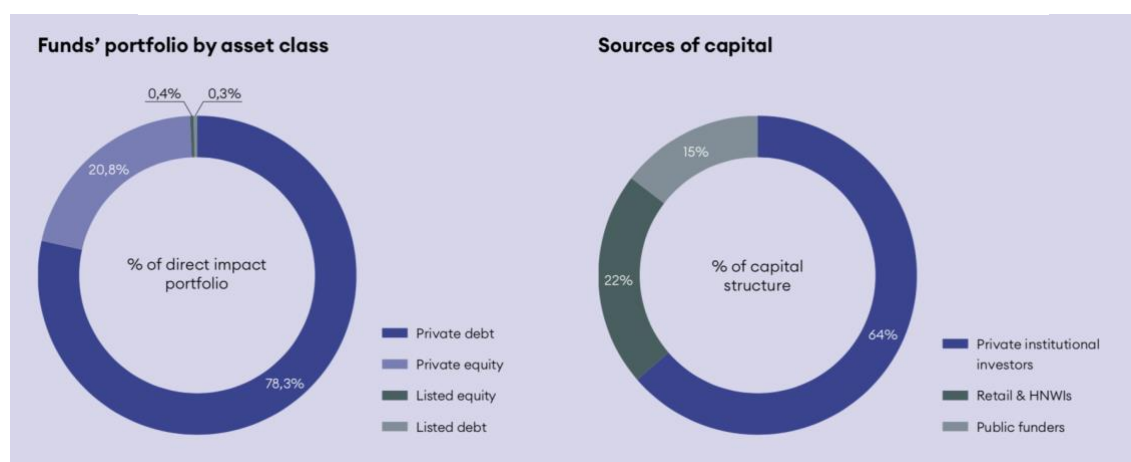
2.2 Impact investment landscape

2.2.1 Global market

In recent years, impact investing has grown from a disruptive investment concept to a complex and diverse investment ecosystem, with new investors emerging globally. Increased attention from policymakers and the establishment of industry standards have helped the sector to grow, while international organisations such as the UN, including initiatives like the United Nations Social Impact Fund (UNSIF), have played a pivotal role in encouraging and advancing impact investing aligned with the UN SDGs.

According to the GIIN (2022), the global impact investing market was estimated to be worth \$1.164 trillion in 2021, with a 32% increase since 2018. As illustrated by Figure 1, findings show that 64% of the sources of capital are from private institutional investors, followed by retail & high-net-worth individuals (HNWIs) (22%) and public funders (15%), and private debt comprises the predominant share within the portfolios of these funds.

Figure 1: Asset classes and sources of capital of impact funds

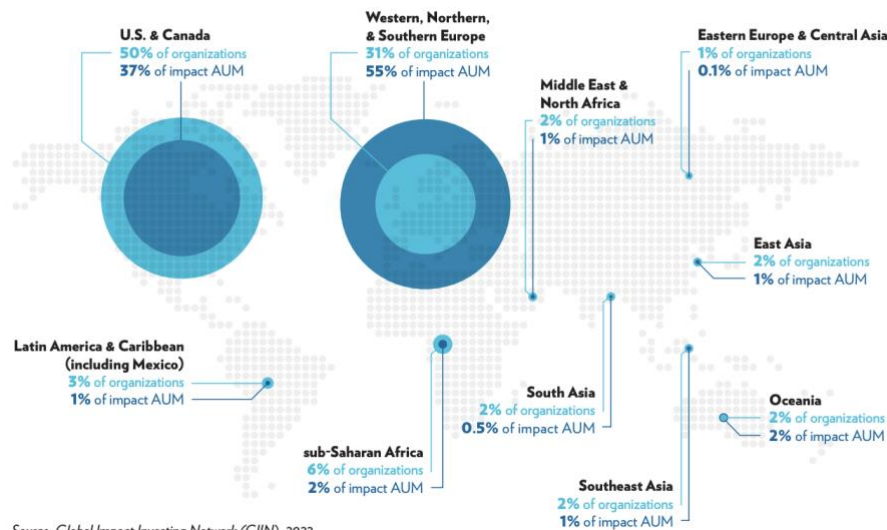


Source : Tameo 2022

Regarding the location of the impact investing organisations' headquarters, 92% are located in developed markets, mainly in the United States (50%) and Europe (31%). The remaining 8% are located in emerging markets, as illustrated by the figure below.

Figure 2: Organisational representation and impact AUM by headquarters location

n = 1,013; excludes organizations for which headquarters location was unknown



Source : GIIN (2022b)

2.2.2 Europe

In Europe, impact investing is still a niche concept for most European investors. According to the Impact Database (2022), local history and socio-political institutions strongly influence impact investing markets in Europe, as financial and social structures shape how private and public capital are combined. This causes a strong variation in the level of impact investing from one country to another.

Among the main players in the European impact investment landscape, the United Kingdom emerges as a leading player, with a significant number of 77 players. It is closely followed by Germany and Switzerland, both with a substantial participation of 68 players each. The Netherlands occupies a prominent place with 48 players, while France maintains a significant presence with 30 players (Impact Database 2022).

The current market size in Europe for impact investments is difficult to determine precisely due to the scarcity of data and statistics. However, several organisations have undertaken studies aimed at evaluating the scope of such investments within the region.

According to InvestEurope (2022), the mainstream European investment market in 2021 held a substantial value of €17.8 trillion. Within this market, the segment dedicated to sustainable and ESG investments amounted to €3 trillion, representing approximately 17% of the total market value. The impact investment market, as estimated by the GIIN, accounted for €562.9 billion, making up around 3% of the overall market size, including direct and indirect investments and listed assets (EVPA 2022).

Drawing a comparison, findings from a study conducted by the European Investing for Impact Network and the Global Steering Group for Impact Investment indicate that the direct impact investment market in Europe attained a value of €80 billion in 2021. This figure represents a noteworthy growth rate of 26% when compared to the preceding year (EVPA 2022). Those variation in the estimations between the GIIN and EVPA are due to differences in measurement, as the GIIN included listed assets, whereas EVPA primarily targeted investments into unlisted assets. Despite the considerable growth observed, the impact investment sector in Europe still represents a small proportion, accounting for only 0.5% of the total European market for mainstream investments. (EVPA 2022).

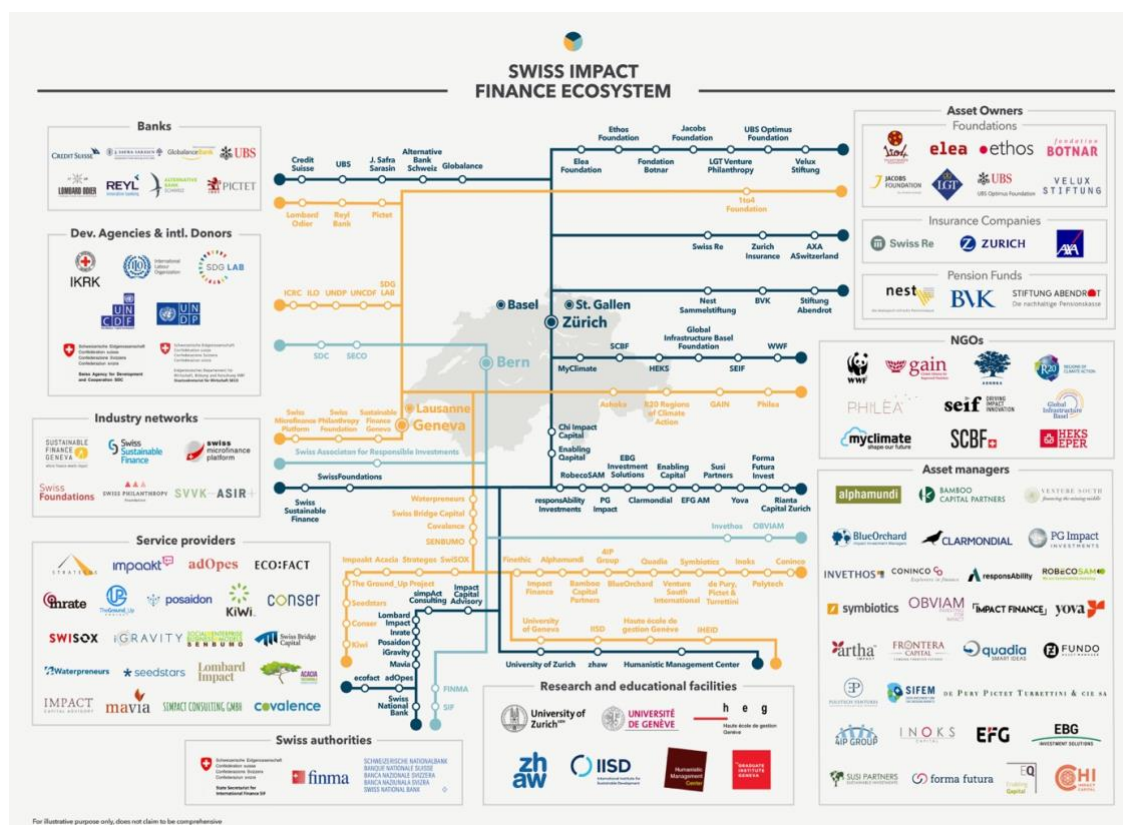
Regarding the sources of funding, individual investors contribute 26% of the overall funding, financial institutions account for 28%, and institutional investors make up 23% of the providers. In addition to those funding sources, the remaining portion consists of EU funding, contributions from high-net-worth individuals, and support from foundations. The EVPA study also discusses the key role that policymakers play in facilitating access to finance for individual investors. Indeed, the growth of this sector is propelled by countries with favourable regulations that democratise access to impact investing and leverage substantial resources from retail investors, who are increasingly seeking sustainable, impactful opportunities. The EU provided 5% of the funds available for impact investors in 2021, compared to 1% in 2020, which indicates an increased commitment by the European Investment Fund to deploy EU funds in public-private co-investments (EVPA 2022).

2.2.3 Switzerland

With a wide variety of investors, organisations, and initiatives committed to promoting social and environmental impact through investment, Switzerland is considered as a pioneer in the field of impact investment, thanks to its well-established impact investing landscape (de Sá Kirchknopf 2021). The country is home to several leading impact investment companies and associations, such as Symbiotics, BlueOrchard Finance, ResponsAbility Investments and the Swiss Sustainable Finance Association. Moreover, it houses influential organizations such as the Geneva-based Impact Hub and the Zurich-based Impact Investing Platform, which provide a range of tools and solutions to link impact investors with high-impact ventures and initiatives.

Figure 3 illustrates the network of investors, intermediaries, and investees that compose the Swiss impact finance ecosystem. This ecosystem is composed of an array of entities, such as impact investment funds, banks, foundations, and NGOs. It also includes intermediaries and advisory companies that aim to connect investors with impact investing opportunities.

Figure 3 : Swiss Impact Finance Network



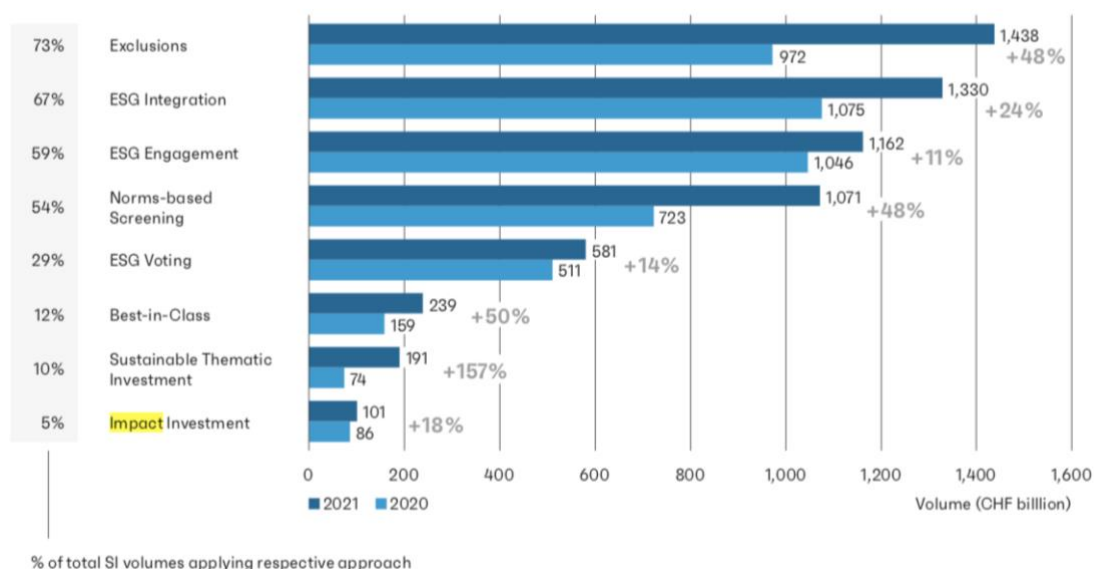
Source: iGravity (2021)

In the following section, a comprehensive examination is conducted on the various sustainable investing strategies in Switzerland, according to the findings provided by the SSF Market Study of 2022. Figure 4 shows a graphical representation of the aggregate amounts invested in each approach in 2021 and draws a comparison to the figures reported in 2020. Notably, substantial growth rates were observed across all approaches, indicating a positive trend in sustainable investing.

However, impact investing experienced a growth rate of only 18% to 101 CHF billions in 2021, which represents a slower increase compared to previous years and has caused it to fall short of sustainable thematic investments once again. Currently, it accounts for only 5% of all sustainable investments in Switzerland (SSF 2022).

Figure 4: Development of sustainable investments approaches

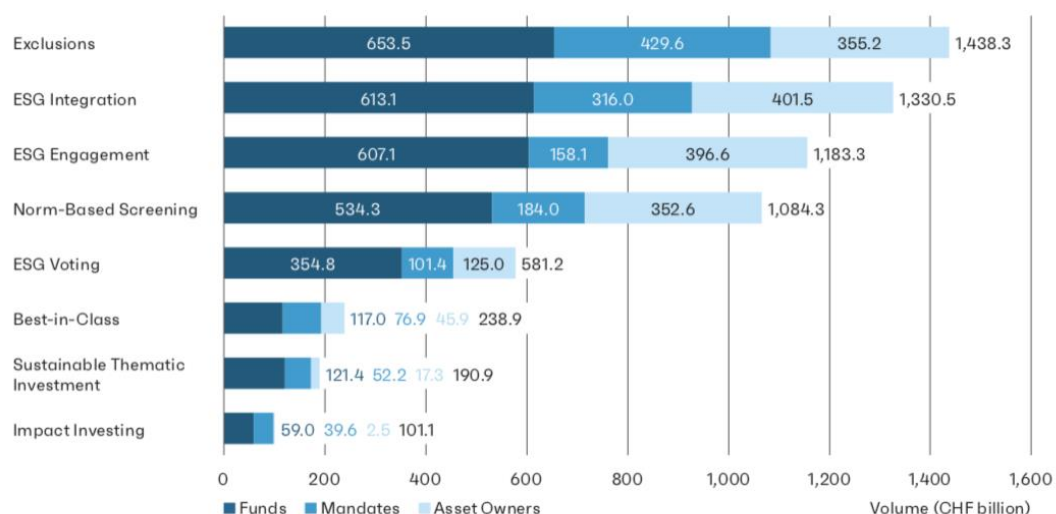
(in CHF billion) (n=81)



Source: SSF (2022)

Figure 5 breaks down the volumes associated with each SI approach, categorizing them into funds, mandates, and assets owners. This breakdown provides a more detailed understanding of how these different investment vehicles contribute to the overall SI landscape. Notably, only a small portion of asset owners' volumes are allocated to impact investments. The SSF has suggested that this trend may be due to the complex nature of impact investments, which often requires extensive asset manager expertise and is not commonly utilised by asset owners for their self-managed assets.

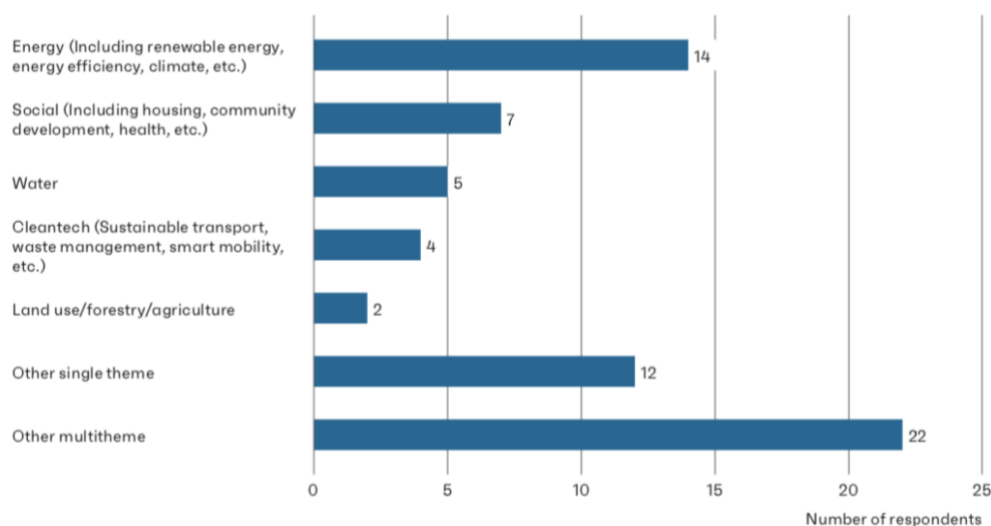
Figure 5: Application of sustainable investment approaches differentiated by funds, mandates, and asset owners (in CHF billion) (n=81)



Source: SSF (2022)

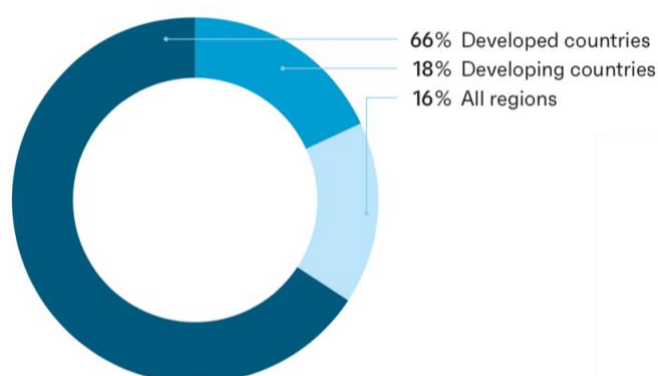
Based on responses from 25 participants of the SSF survey, the primary areas of focus for asset managers in impact investing include five key topics: the environment, water, housing and community development, energy, and microfinance. Figure 7 demonstrates that these investments primarily target developed countries, although there has been a rise in the share of developing countries since 2021.

Figure 6: Asset allocation in impact investment for asset managers (in CHF billion) (n=20)



Source: SSF (2022)

Figure 7: Impact investments in developed versus developing countries for asset managers (in%) (n=20)

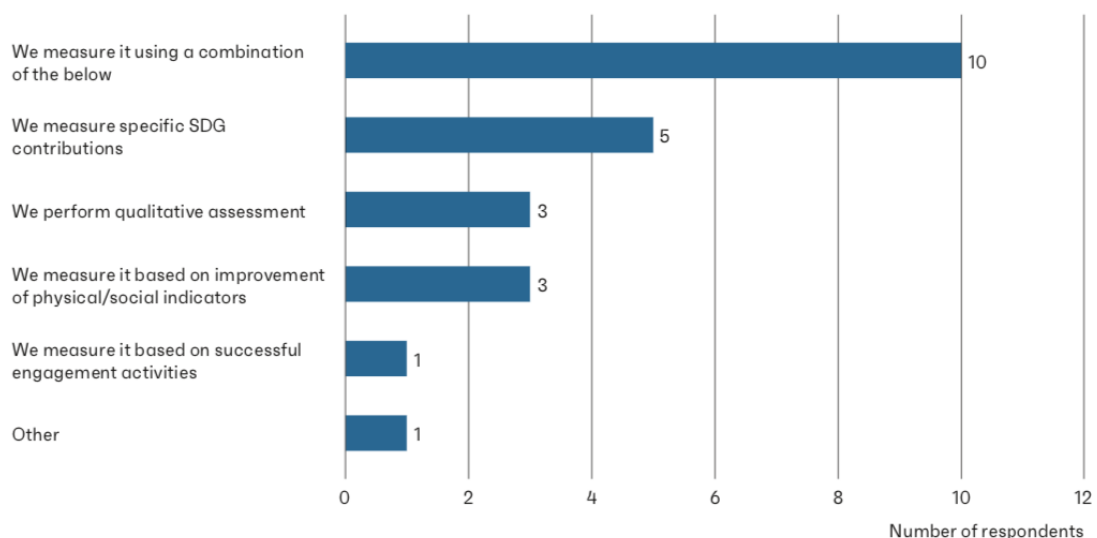


Source: SSF (2022)

Figure 8 depicts the methods used by asset managers to measure their impact, as reported in the survey. One quarter of respondents indicated that they measure specific contributions to the SDGs. In contrast, half of the respondents reported using a combination of methods, such as qualitative assessments, measuring based on SDG contributions, physical/social indicators, and successful engagement activities.

Figure 8: Impact measurement strategies for asset managers

(in number of respondents) (n=20)



Source: SSF (2022)

Elucidating the purpose of measuring social impact remains a multifaceted inquiry in the realm of impact investing. Despite a shared aspiration for standardized measurement protocols, tailored methodologies may be more relevant due to contextual differences. The objectives of measuring impact introduce a set of paradoxes, as investors and entrepreneurs employ such metrics for distinct purposes. In a similar vein, the impediments and prospects of measuring impact investment for investors diverge from those of gauging impact performance for entrepreneurs, and it is incumbent to exercise caution when merging or conflating these domains.

2.2.3.1 Regulations on impact investment in Switzerland

Impact investment is supported by a strong legal and regulatory framework in Switzerland, which offers a stable and transparent environment for both investors and investees. Some key regulations include:

- Swiss Financial Market Supervisory Authority (FINMA): Information on the rules and policies that relate to different financial activities, including impact

investment, can be found on the FINMA website such as the *FINMA Guidance: Preventing and combating greenwashing* (FINMA 2021).

- Swiss Financial Services Act (FINSA): All Swiss financial service firms are subject to the regulation framework of the FINSA. This document sets out the basic standards for financial service providers, including those engaged in impact investing, in terms of licensing, conduct, and governance (Swiss Confederation 2015).
- Swiss Federal Act on Collective Investment Schemes (CISA): In Switzerland, collective investment schemes are governed by the CISA, a federal legislation. It provides specifications for the authorization and management of funds, as well as guidelines for information disclosure, reporting, and investor protection (Swiss Confederation 2006).
- Swiss Sustainable Finance (SSF) Label: SSF provides a “voluntary label”. To be eligible for this label, specific criteria must be met, based on internationally recognized standards for SI. On the one hand, this helps investors to find opportunities for sustainable investments and, on the other hand, inspires investment receivers to use sustainable business practices (SSF 2020).
- Swiss Association for Responsible Investments (SVVK-ASIR): It is a self-regulatory body establishing guidelines for responsible investing. The association address topics such as corporate governance, transparency, and impact on the environment and society.
- Sustainable Finance Disclosure Regulation (SFDR). SFDR plays a crucial role in the European Union's Action Plan on Sustainable Finance which intends to promote sustainable investing and prevent greenwashing (ResponsAbility 2022). SFDR Article 9 Funds or “Dark Green Funds”: Products that support environmental or social characteristics, have a sustainable investment objective, or have a product with a reduction in carbon emissions as their investment objective are covered under this Article 9. According to this article, financial institutions are expected to publish specific information about how sustainability issues are incorporated into their investment decisions, including the degree to which ESG factors are taken into account. They must also disclose the precise environmental or social goals of the financial products they offer, as well as the methods used for monitoring and reporting on these objectives (Deloitte 2021).

Switzerland's well-developed regulatory environment for impact investing has contributed to the expansion of this market and plays an important role in establishing it as a pioneer in the field of sustainable finance.

To conclude this section, Switzerland holds a strong financial centre and a thriving culture of innovation as its notable strengths for the expansion of this field. However, the relatively limited adoption of impact investing in comparison to the overall market could be viewed as a weakness. On the positive side, the inclination of Millennials towards measurable impact and sustainability provides an opportunity for the growth of impact investing. Nonetheless, the existence of inconsistent practices and standards can create difficulties, especially concerning the problem of "impact washing" (de Sá Kirchknopf 2021).

2.3 **Financial instruments and asset classes**

The availability of impact investing products spans a diverse set of conventional asset classes, such as private equity, fixed income, real estate, and public equity. Within each asset class, there are different financial instruments available that can be used to make impact investments, including listed equity, fixed income/listed debt, private debt, real estate, sustainable infrastructure, and private equity. Each have varying levels of financial returns based on the investor's risk tolerance and incentive for entering the market (BlueOrchard 2021). Indeed, investors need to assess their need for liquidity when determining how their capital can be obligated and for how long, and to understand which impact investments may be most appropriate across the public and private markets spectrum (BlueOrchard 2021). Figure 9 presents a summary of the asset classes used in impact investing and the corresponding range of returns associated with each class.

Figure 9: Asset classes and return rate spectrum



Source: GIIN (2022a)

The literature suggests that impact investing encompasses a spectrum of financial returns, ranging from below to above market rates (Höchstädter & Scheck 2014). Various authors, such as Harji, Jackson (2012), distinguish between impact-first and financial-first investors based on their primary focus. Financial-first investors prioritise financial returns while setting a minimum threshold for non-financial impact, whereas impact-first investors prioritise non-financial impact with a willingness to accept potentially lower financial returns (Höchstädter & Scheck 2014). According to Cambridge Associates (2017), impact-first investors may be willing to accept below market-rate returns if they believe that the social outcomes of the investment adequately compensate for any anticipated financial shortfall relative to other investments of comparable risk. It is important to note that the requirement of a financial return distinguishes impact investing from charitable and philanthropic endeavours (Höchstädter & Scheck 2014).

Accordingly, there are a range of vehicles through which impact investments may be channelled, each tailored to satisfy the specific requirements of investors. Impact

investments can take various forms, including direct investment, impact funds, fund of funds, blended finance, and passively managed products (BlueOrchard 2021).

Direct investments involve investing directly in a specific project or company, allowing for the closest alignment between an investor's impact and return objectives. On the other hand, impact funds pool capital from multiple investors and invest in various projects or companies, outsourcing the obtaining, executing, and monitoring of the investment. Fund of funds invest in multiple funds that are related to different impact strategies and themes across asset classes. Finally, passively managed products, such as mutual funds or exchange traded funds, offer low costs and automated investment processes but have limited opportunities for independent assessments of both impact and return (BlueOrchard 2021).

Additionally, blended finance has emerged as a significant mechanism for increasing the impact of public and philanthropic capital towards environmental and social objectives. As defined by Kwon, Panulo, McCallum (2021), blended finance is an “*approach for combining finance of different sources (e.g., public with private sources), types (e.g., concessional with non-concessional), and purposes (e.g., using funds for development purposes to mobilize funds with commercial purposes). A blended finance transaction should be catalytic in nature and contribute to development results.*” This strategy can be used to increase the scale and effectiveness of impact investments (GIIN 2022).

Another critical component of impact investing is microfinance, which is a type of financial service that aims to offer credit and other financial products to individuals and small businesses that typically lack access to traditional banking services due to their low-income status (Dominicé 2015). It is an important instrument for reducing poverty and fostering economic growth, especially in developing nations with low incomes. According to Symbiotics (2019), microfinance continues to be the most well-established and developed segment of the impact investing industry at present.

2.4 Challenges, risks & opportunities of impact investing

2.4.1 Challenges

This section explores the various challenges associated with impact investments as identified in the existing literature.

Clarkin, L. Cangioni (2016) identify a lack of “*high-quality investment opportunities with track record*” as a key challenge to the emergence of impact investing, as well as the difficulties in measuring social impact and social return on investment. This opinion is shared with Agrawal, Hockerts (2021), who argue that the process of measuring social outcomes is a resource-intensive task, particularly in rural education and microfinance sectors, due to the lengthy period required to observe and evaluate the social impact generated by the intervention. Consequently, these factors render the measurement of social impact difficult and expensive.

Additionally, the lack of appealing impact investment with a proven track record, along with inadequate capital across the spectrum of risk and return investments, are among the primary limitations of this sector (Saltuk 2013). Finding investment opportunities that satisfy the required returns is challenging, especially for investors who typically demand market-rate returns. Furthermore, the lack of a sufficient track record demonstrating the potential of impact investment to generate favourable returns, as well as the investment readiness of potential recipients, is a significant challenge. As a result of these limitations, there is a mismatch between the supply of capital for impact investment and the presence of attractive investment opportunities. There are several factors that contribute to the lack of investment readiness in impact investment markets. These factors include insufficient understanding of how impact investment markets operate, limited financial literacy, and lack of awareness of available investment capital (Woodland 2018). This gap often induces a risk-averse sentiment among investors (Huppé, Silva 2013).

Moreover, according to a survey conducted by JP Morgan (Saltuk 2013), investors face a significant challenge when it comes to exiting impact investments due to the limited exit strategies available, particularly in developing markets with underdeveloped capital markets. Impact investments are generally illiquid, and the fragmented and heterogeneous nature of this investment market creates additional challenges and uncertainties for investors (Mendell, Barbosa 2013).

Lastly, one of the main obstacles to the broader adoption of impact investing is the limited awareness of its benefits and the supporting tools, standards, and regulations (Woodland 2018). There is a prevalent misperception among investors that impact investing necessitates a compromise between financial returns and social impact. Therefore, the lack of knowledge and practical means to integrate impact considerations into investment decisions while meeting financial targets is a significant barrier. Addressing this issue requires a concerted effort to raise awareness of the opportunities and best practices of impact investing, as well as to provide investors with the necessary tools and resources to make informed decisions.

2.4.2 Risks

Considering the continuous evolution and structuring within the industry, stakeholders in impact investing encounter a diverse array of risks to mitigate and challenges to confront, which are discussed in this chapter.

Barby and Gan (2014) identified five risks that delineate the industry: exit risk, capital risk, impact risk, transaction cost risk, which refers to the potential increase in costs related to non-profit generating activities, such as due diligence and monitoring and unquantifiable risk that arises from unforeseen events that cannot be accurately measured or predicted.

Bugg-Levine, Emerson (2011) also mention liquidity risk, or “exit risk”, as impact investments tend to be illiquid and difficult to sell, it may prevent investors from exiting their holdings whenever required. This is particularly applicable to emerging markets where capital markets are undeveloped, and investors are unable to find viable exit strategies within a reasonable timeframe (Saltuk 2015).

According to Jeffers, Lyu, Posenau (2021), there are different perspectives regarding the financial return of this investment strategy. While some economists argue that strategies like impact investing may be constrained and potentially result in lower risk-adjusted returns compared to unconstrained strategies, others question these assumptions, particularly within private markets (Jeffers, Lyu, Posenau 2021). To close this gap, Jeffers, Lyu, Posenau (2021) provided an empirical analysis of the risk and return characteristics of impact investing funds. The authors used a sample of over 500 impact investing funds and found that, on average, these funds have indeed lower returns than traditional funds, but also lower risk. This viewpoint has been supported by other studies conducted by Brest, Gilson, Wolfson (2018) and Barber, Morse, Yasuda (2021).

Studies have also identified that inadequate regulatory instruments and the issues that investors face due to the low comparability of impact assessment and quantification across various projects contribute to the risks associated with impact investing (Arora, Gulia 2021).

In addition, impact investments bear the potential risk of "impact washing,". Impact washing takes place when *"investment products are marketed as having a social or environmental impact, when in reality they have little or no impact. This undermines the credibility of impact investing and can lead to a lack of trust among investors and other stakeholders"* (Allman, Escobar de Nogales 2015). In that same article, the need to balance social and financial objectives is also mentioned, as financial returns also play a key role in the durability of the investment and its ability to draw in more capital.

2.4.3 Opportunities

The development of impact investing requires a critical assessment of current practices and exploration of new financial models, investment products, tools, and services. Unlike traditional finance theory and models which focus primarily on risk and return expectations, impact investing raises the question of how to appropriately value financial assets that provide both financial and social/environmental returns. As highlighted by Nicholls et al. (2015), this is a critical question that needs to be addressed in the advancement of impact investing.

According to Delaporte, Schneller, Elmer (2021), there is a significant shift occurring in the attitudes of investors, with an increasing focus on sustainability. Accordingly, there will be a substantial transfer of wealth to younger generations in the coming years, particularly millennials born after 1980, who prioritise social and environmental impact. Based on a survey done by Morgan Stanley in 2019, women and millennials have demonstrated a greater inclination towards sustainability and impact considerations in their investment decisions than the general population (Morgan Stanley 2019). The research also states that institutional investors face mounting pressure from regulations and public opinion to align their investments with the United Nations' SDG. This presents an opportunity for profitable collaboration between the public and private sectors. Moreover, the report highlights the potential of emerging technologies, such as blockchain and crowdfunding, to reduce transaction costs, enhance transparency, and stimulate additional investments within the impact investing sector.

Neil (2021) also argues that there is a likelihood of the emergence of standardised impact indicators that will enable companies to report on their impact on a regular basis, thereby facilitating the assessment of impact by investors. The availability of reliable impact measurement will enable the sector to offer well-informed investment opportunities based on sound impact assessment. Furthermore, Neil (2021) also states that private markets, such as unlisted stocks and bonds, currently dominate impact investing, but the public markets hold a significantly larger capital source. He continues by saying that to expand impact investing opportunities, there is a need for developments in the public markets.

Clarkin, L. Cangioni (2016) suggest that a favourable regulatory framework is necessary for the expansion of impact investments, as it would provide the necessary legal infrastructure to instil investor confidence and ensure compliance and disclosure. This highlights the crucial role that government policy and regulation can play in fostering the growth of impact investing markets, particularly in emerging economies where legal frameworks may be less developed. By providing clear guidelines and standards for impact investments, policymakers can help to mitigate risk and increase investor confidence, ultimately spurring greater flows of capital into impactful projects.

Financial advisors also play a crucial role in shaping the investment portfolios of the affluent retail investors of the future, thereby expanding the impact investing marketplace. According to The Rockefeller Foundation (2019), while financial advisors may have knowledge of ESG mutual funds and ETFs, they are often unfamiliar with the full range of assets available to impact investors, primarily because of the absence of a standardised approach to measuring the impact of investments. As such, the implementation of a standardised impact measurement framework and the provision of education to financial advisors would facilitate the expansion of the sector.

To conclude, as more investors, particularly younger generations and institutions, seek to align their investments with their values, the impact investing market is poised for significant growth. Opportunities in both private and public markets exist, with new financial products and technologies helping to increase transparency and reduce transaction costs. But there are still challenges that need to be addressed, namely the absence of a universal impact measurement standard or a need for more education among financial advisors.

Therefore, it becomes evident that key priorities for the impact investing industry involve the standardisation of definitions, metrics, tools, and framework, as well as the

development of a robust track record database and the active involvement of public and private actors are crucial for creating the necessary structural environment (Calderini, Chiodo, Michelucci 2018).

2.5 Investors motivations

Motivations for impact investing can vary depending on individual investors or institutions, but there are some common reasons for investing impactfully. For instance, in a survey run by the GIIN (2020), the three most common motivators cited by investors were: having a mission to achieve impact through their investments, impact investing being a crucial part of their commitment as responsible investors and impact investing being an effective way to accomplish their impact goals. Nonetheless, financial attractiveness, in comparison to other investment options, is also considered a relevant factor by 70% of respondents (GIIN 2020).

To delve deeper, a study by Bénabou and Tirole (2010) and Ariely, Bracha, Meier (2009) proposes several categories to classify drivers: "intrinsic" (value-motivated), "extrinsic" (reward-oriented), and image-driven" (perception-oriented) motivations. The study found that individuals who are motivated by their image or reputation are more likely to engage in prosocial behavior, even without any monetary incentives (Ariely, Bracha, Meier 2009).

Moreover, a research done by Heeb et al. (2021) reveals that investors feel good about their decision to make sustainable investments, and their willingness to pay is predominantly motivated by emotions rather than a rational and financial measurement. Another study shows that the amount invested is driven by financial reasons, but the decision to invest in itself is more influenced by value-related criteria. Additionally, it demonstrates that the share invested in general sustainable investments—as opposed to impact investments—is significantly influenced by mistrust in the financial markets (Meyer, Krauss, Bachmann 2019).

According to a recent study ran by De Amicis et al. (2020), when examining the demographics of individuals interested in investing in impact investment, women, older people, and those who are already familiar with the impact investing field appear to be more inclined to do so. The study found that participants were generally in favour of investing in Impact Investment Funds (IIF), especially if they fell within these demographics.

In conclusion, impact investing is driven by diverse motivations that encompass individual values. Research suggests that motivations can be classified into intrinsic, extrinsic, and image-driven categories, with individuals driven by their reputation more likely to engage in prosocial behaviour. Emotions and value-related criteria heavily influence investment decisions in SI, and demographic factors such as gender and age influence individuals' interest in investing in impact investment funds.

2.6 Roles of the public and private sectors

Governments have a vital role in regional ecosystems by promoting an enabling environment and market development for impact investing. They have a dual role as both capital providers and facilitators, enabling investment products with impact and financial returns and providing tax incentives to stimulate impact investing markets (Wilson 2014).

In that regard, Wood, Thornley, Grace (2013) assess the participation of governmental entities and institutional asset owners in the market expansion of impact investing. The study explores the role of the government as an *“underwriter, co-investor, regulator, procurer of goods and services, or provider of subsidies and technical assistance, thus enabling intentional investment for social and environmental benefits by asset owners”* (Wood, Thornley, Grace 2013). Hence, governments possess the capacity to foster impact investment by means of public policies that encourage institutional asset owners, who are bound by fiduciary obligations, to participate in such investments. Due to their dominant position and ability to stimulate other investments, institutional investors' involvement can also legitimate the field of impact investing. It is therefore critical that institutional asset owners and policymakers cooperate jointly (Wood, Thornley, Grace 2013).

Taking another look at the earlier challenges, investment managers who seek to integrate impact alongside financial returns often encounter limited support from regulatory frameworks (WEF 2013). According to the WEF (2013), this challenge is closely linked to the restricted engagement of institutional investors, who face multiple requirements and struggle to incorporate impact investments into their asset allocation framework. Indeed, Calderini, Chiodo, Michelucci (2018) argue that the low involvement of institutional investors can be attributed to the strict regulatory environment and high standards in terms of benchmarking and reporting imposed on them. They usually demand a robust track record when allocating financial resources, which is often lacking due to the industry's relatively early stages and challenges associated with the consistent adoption of measuring tools.

The case of Switzerland

Swiss public institutions play a significant role in promoting impact investing in Switzerland. The Confederation has established various platforms to promote sustainable finance and impact investing, such as the SSF and the Green Fintech Network. These platforms offer an opportunity for financial institutions, investors, and other stakeholders to collaborate and promote sustainable financing.

The SECO aims to mobilize private investment in support of the SDGs and encourages the coordination of efforts in sustainable finance, including impact investment (SECO, 2021). In 2003, the SECO contributed an initial capital of \$3 million to ResponsAbility's microfinance fund, with an additional \$3 million provided by the private sector. This was the first official impact investment product available to the wider public in Switzerland. The fund, which manages today over \$1 billion invested in over 90 countries, has since become a cornerstone of impact investment in Switzerland. Another initiative raised by the government in 2011 was the Swiss Investment Fund for Emerging Markets (SIFEM), which is under the surveillance of SECO and subject to Federal Council directives. Today, it has a portfolio of around \$900 million. The country now has a thriving ecosystem for impact investing, where even traditional financial institutions are increasingly interested in this rapidly growing market thanks to the growing demand from clients for sustainable financial products (de Sà Kirchknopf 2021).

The private sector is also fundamental to the development of impact investing by providing the required capital and expertise to finance social and environmental ventures. Credit Suisse, UBS, and Pictet are among the main Swiss financial firms active in impact investment. According to Impact Database (2022), the country counts about 68 stakeholders in this field.

Blended finance mentioned earlier, of which the above is an example, has a significant role to play in impact investing in Switzerland. Indeed, it can facilitate the scaling of impact-oriented projects as well as attracting private capital towards sustainable investment and create partnerships that can address social and environmental challenges.

As an example, the SECO, UBS Optimus Foundation, Credit Suisse Foundation, and the Swiss Agency for Development and Cooperation collaborated in 2021 to launch the SDG Impact Finance Initiative. The initiative seeks to mobilize up to one billion Swiss francs in private capital to drive measurable impact in developing countries. The SECO is providing support for the initiative, contributing CHF 19.5 million (SECO 2021).

Blended finance can help overcome the financing gap that exists in many impact investment projects by providing a combination of public, private, and philanthropic (first-loss) capital. However, despite the growing interest in blended finance, there is still a lack of clear guidance on which instrument to use in which context, which can hinder its effective implementation and impact (Kwon, Panulo, McCallum 2021).

3. Methodology

The purpose of this research is to identify the opportunities and challenges related to the development and expansion of the impact investing market in Switzerland, and to determine whether such investments have a chance of gaining wider adoption.

The study adopts a qualitative research design for the purpose of data collection and subsequent analysis of results. Comprehensive qualitative research takes place in a natural setting and aims to understand the phenomenon being examined from the perspective of the participants. Furthermore, it enables in-depth analysis by providing answers to the “what” and “why” of a new event (Creswell 2009). It is appropriate for addressing multidimensional problems such as identifying the numerous opportunities and challenges of impact investment and is also effective for clarifying a complex problem area that is challenging to measure with quantitative approaches.

3.1 ***Data collection***

The employment of semi-structured interviews in this study stems from their capacity to facilitate focused, interactive exchanges characterised by a conversational dynamic. This interview format encompassed a combination of open-ended and closed-ended questions, thus accommodating a comprehensive exploration of the research topic.

A prearranged set of questions, containing the key elements identified during the literature review, was prepared in advance to guide the semi-structured interviews. The questionnaire is provided in Appendix 1. The closed-ended questions were designed to present participants with a predefined set of options, enabling subsequent analysis through the utilisation of charts and percentages. This approach facilitates the extraction of quantitative data and provides a systematic and structured method for organising and summarising the responses, allowing for efficient data interpretation. Moreover, it enables the presentation of findings in a visual format, facilitating comprehension and communication of key results. Additionally, this approach facilitates the examination of the distribution of specific responses among the participants, thereby enhancing the ability to draw reliable and meaningful conclusions.

Open-ended questions were strategically employed during the interview process to allow in-depth analysis and the development of recommendations. These open-ended questions allowed participants to provide comprehensive and detailed responses, offering valuable insights beyond the scope of predefined options.

While the interview setting provided flexibility for participants to offer further details, the process remained controlled to uphold focus and relevance to the research objectives. This controlled environment ensured that the qualitative aspects of the study were pursued while maintaining a clear alignment with the research goals. The interviews conducted were transcribed verbatim to maintain the integrity and accuracy of the data. These interview transcripts have been included in Appendix 3.

3.2 Sampling strategy

To narrow the data collection, Geneva and Zurich were selected as a representation of the whole Swiss investment activities. The rationale for this selection is the prominence of these two cities as epicentres of investment activities within Switzerland.

A purposive sampling method was applied to identify suitable participants for this study. Purposive sampling, a non-probability sampling technique, entails the deliberate selection of participants by the researcher based on specific criteria that are pertinent to the research question or topic at hand (Dudovskiy 2022). In this particular case, the criteria for selecting participants included professionals with expertise in impact investing or sustainable investing in the cities of Geneva and Zurich. The sample of participants comprised individuals occupying diverse roles, including fund managers, analysts, consultants, and other professionals engaged in impact investment activities. As such, in-depth interviews with 10 investing actors from Geneva and 3 from Zurich were conducted. A total of 11 interviews were conducted remotely using the Teams platform, while 2 interviews were conducted in person. The remote interviews ensured accessibility and convenience for participants, and the in-person interviews provided a face-to-face interaction, allowing for a more immediate and nuanced exchange of ideas. In addition, a survey, which encompassed the same set of questions as the interviews, was administered to a further 5 individuals who were unable to participate in the interview sessions to gather their insights, with 3 respondents from Zurich and 2 from Geneva. In total, the study collected insights from 18 different professionals, whose affiliations can be found in Appendix 2.

3.3 Data analysis

By conducting a comparative analysis, the study delved into a more nuanced exploration of the research topic, enabling the identification of converging or diverging viewpoints among the literature and the insights provided by professionals in the field.

This analytical strategy was chosen to identify the potential similarities or discrepancies between the existing literature and the perspectives of professionals actively engaged in the field of impact investing. Particularly, it shed light on potential gaps or inconsistencies that emerged between the empirical framework and the insights reported by practitioners. Such an investigation facilitated a deeper understanding of the complexity and multifaceted nature of impact investing in Switzerland and helped in elaborating recommendations based on the results, while also highlighting areas that require further investigation.

4. Empirical findings

This section presents the results of the data collection on the status of impact investment in Switzerland. The analysis of the responses of the 18 participants revealed several key findings. First, impact investing in Switzerland is still largely a niche activity, with a relatively small number of investors and entrepreneurs actively engaged in this approach. Second, there is a growing interest in impact investing in Switzerland, driven in part by a desire among investors to align their investments with their values and achieve a mission through their investments.

Third, some key drivers of growth in impact investing in Switzerland were identified, including a supportive policy and regulatory environment, the standardisation of impact measurement and the transfer of wealth to younger generations in the coming years. Nevertheless, several barriers to a more widespread adoption of this investment type were also found. One major challenge is the lack of awareness among potential investors. There is also a general tendency for investors to be risk-averse and conservative in their investment decisions. Additionally, the illiquidity and long-term nature of impact investments can likewise be a barrier.

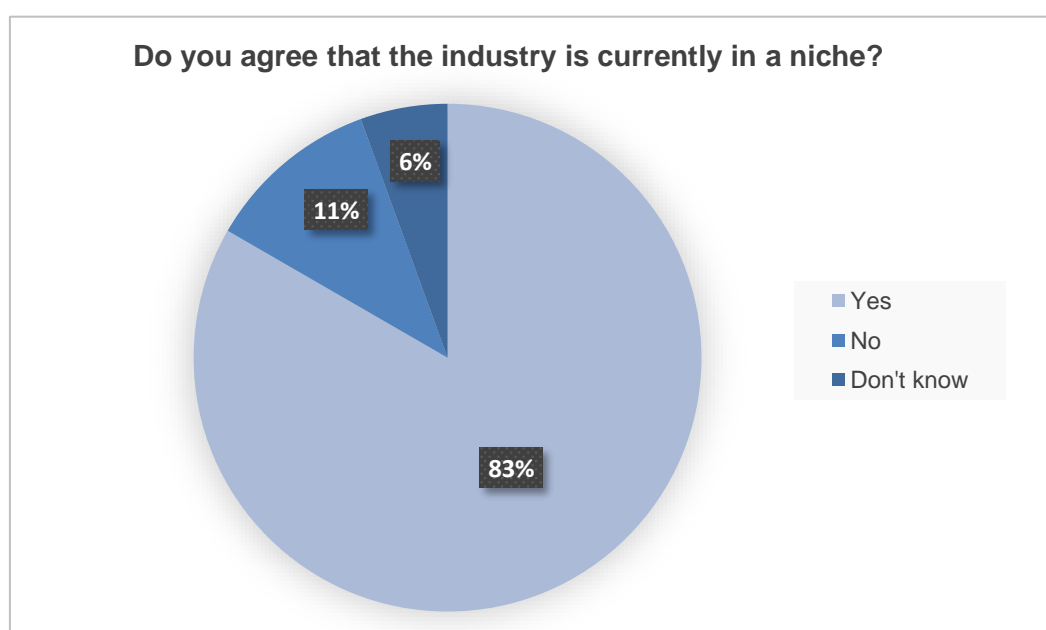
Further details on these findings are discussed in the subsequent sections.

4.1 Status of impact investing in Switzerland

One of the study's primary goals was to determine how much impact investment is now seen as a niche field in Switzerland. To accomplish this, a number of questions were asked to participants to ascertain their perceptions of the position of impact investing within the larger sustainable finance environment.

A vast majority of participants (83%) agreed that impact investing currently constitutes a niche sector in Switzerland, according to the study's overall findings. Two people replied negatively (11%), and one stated that they could not reply as they were not working in the area. This data shows that impact investment has not yet gained widespread support in the country and may encounter difficulties doing so.

Figure 10: Perceptions of impact investing as a niche



Source: Primary data collection (J. Ajvazi, 2023)

Experts provided additional insight into the current state of the Swiss impact investing landscape. According to Expert 6, while impact investing has seen significant growth in recent years, it remains relatively small in comparison to the overall investment environment. She notes that certain regulations (i.e., SFDR 9)² are becoming stricter, which is leading to more stringent reporting requirements and feedback to prove impact. As a result, this may constrain the growth of this sector. However, she highlights that despite these challenges, the impact aspect is why many professionals in the field

² Cf p. 14

continue to work in this space. They believe in its potential for creating positive change. Expert 8 also pointed out that while impact investing is becoming more widely recognised, there are still challenges in distinguishing true impact investments from those that are merely labelled as such for marketing purposes.

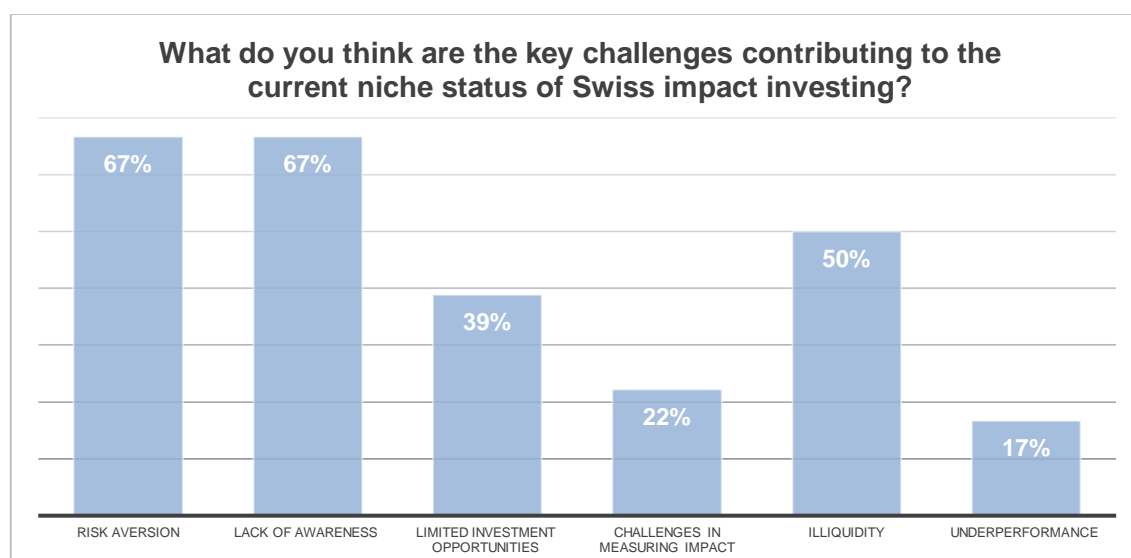
Building on the insights of these experts, it is clear that impact investing in Switzerland is gaining traction, albeit slowly. Despite the progress, there are still challenges that need to be addressed for impact investing to truly reach its potential.

4.1.1 Challenges

In addition to assessing perceptions of impact investing's niche status, the study attempted to identify the significant challenges the industry currently faces. Participants were presented with several options and asked to select the ones they felt were the major obstacles to the adoption and growth of impact investing.

As indicated in Figure 12, the three most selected challenges of impact investing in Switzerland were: lack of awareness (67%), risk aversion (67%), and illiquidity (50%). Some other challenges identified by participants included the need for more standardised impact measurement and reporting, limited availability of investable opportunities, and concerns around the scalability and financial performance of impact investments. While these challenges were less commonly selected than the top three, they were still seen as important factors that can hinder progress in the field.

Figure 11: Key challenges contributing to the current niche status of Swiss impact investing



Source: Primary data collection (J. Ajvazi, 2023)

For the purpose of gaining a more in-depth understanding of the challenges that impact investing faces, the experts offered insightful perspectives on the subtleties and complexity of the subject, emphasizing further difficulties and suggesting solutions.

One key theme that emerged from the analysis of the data was that the risk aversion was found to be fuelled by the lack of awareness and understanding of impact investing among potential investors. Regarding this point, Expert 1 commented that *“There is a lack of understanding of what we are talking about, and because there’s a lack of understanding, there’s an aversion of risk. If we do not understand what it is, we will not do anything.”* To that, Expert 16 added that there is also an educational gap since the majority of individuals fail to distinguish between ESG and impact.

On top of the challenges related to the lack of understanding and risk aversion, a significant number of participants raised concerns about the perception that impact investing necessarily involves giving up financial returns or accepting underperformance.

However, it is noteworthy that the phenomenon of underperformance per se is not a significant obstacle to the broader adoption of impact investing. Rather, the key barrier lies in the associated perception and inadequate awareness of the field. Even though the topic is further explored in a following question, participants provided their comments on this issue when asked about the challenges.

In reference to this matter, Expert 3 pointed out that:

“One key challenge that comes into my mind is that people would think that if you invest with impact, that means less financial performance. The core motivation of most of the investors that I’m familiar with is the financial performance, because that is why you invest, you want to make a good return. And I’m not saying that impact investing is not providing a good return, but I think there is this perception of a balance. Either you have a return, or you have a good impact.”

In addition to Expert’s 3 comments, Expert 2 provided another perspective on this perception. According to Expert 2: *“there is still sometimes misconceptions, that you are going to have to give away some returns to do impact investing, depending on the fund, depending on the asset class.”* Expert 5 further noted that the misperception of impact investing as necessarily entailing a trade-off between financial returns and social or environmental impact has contributed to its perceived lack of attractiveness. While there may be cases where this trade-off exists, Expert 5 emphasized that impact investing can generate both financial returns and positive social or environmental outcomes. Regarding underperformance, Expert 5 also argues that *“these are myths. The performance is actually pretty good compared to traditional finance. This company has*

been here for over 20 years, and every year we find out that when the rest of the world is collapsing, we still have a business.”

Therefore, there is a need for greater education among investors and potential clients to dispel this misperception and highlight the potential benefits of impact investing. This education can help to promote a greater understanding and appreciation of impact investing, which may in turn help to expand its adoption and impact

In conclusion, the challenges associated with impact investing are multifaceted and complex. While expert interviews highlight several challenges that investors must consider when engaging in impact investing, these challenges can be mitigated through targeted strategies, including greater education and awareness-raising among potential investors and the development of specialised financial products that address the unique characteristics of impact investing.

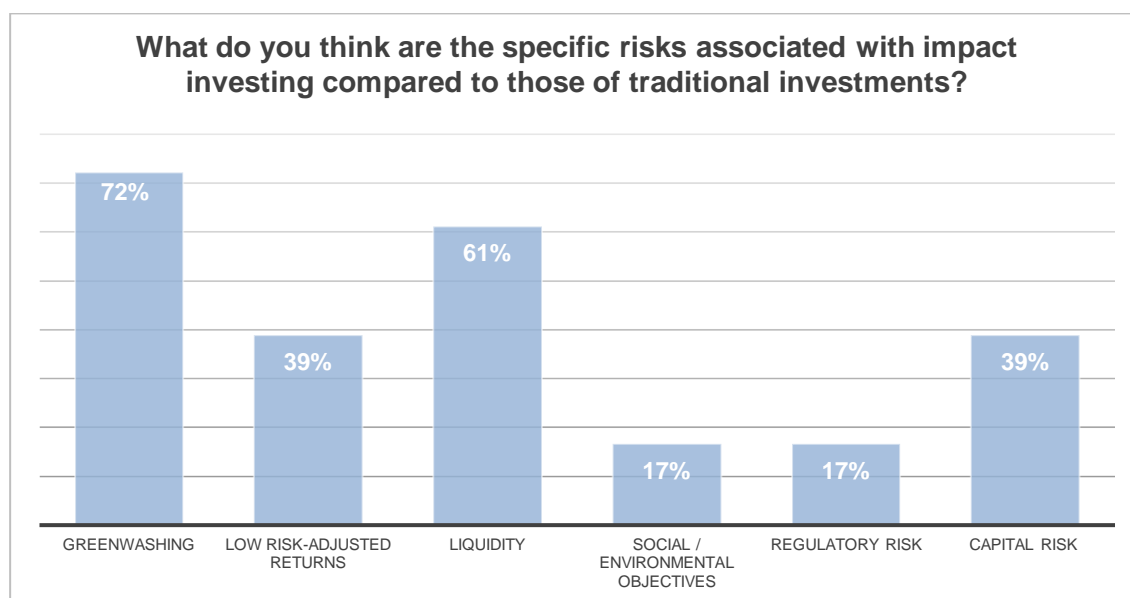
4.1.2 Risks

To better understand the risks that investors perceive in impact investments, participants were requested to provide the specific risks that those carries in comparison to other types of investments. Their comments addressed what they perceived as risks of impact investing and offered insight into the potential causes of investors' risk aversion.

The risks presented included greenwashing³, low risk-adjusted returns, liquidity risk, risks associated with failing to achieve social or environmental objectives, regulatory risk, and capital risk. The most frequently selected answers to the question on specific risks related to impact investing were those associated with greenwashing and liquidity, by 72% and 61% of respondents respectively. Also, 39% of the participants identified low risk-adjusted returns as a risk which could hinder its growth and adoption by investors.

³ In this paper, the terms "greenwashing" and "impact washing" are used interchangeably to describe deceptive practices by companies. Greenwashing refers to false claims about environmental impacts (Hayes 2023). In the context of investment, impact washing is similar to greenwashing, but with a particular focus on misleading claims about the social or environmental impact of investment portfolios or financial products (Cote 2022).

Figure 12: Risks associated with impact investments



Source: Primary data collection (J. Ajvazi, 2023)

In addition to those results, Expert 2 further develops that: *“[impact washing] is a risk even for players that are not typically doing some impact washing or greenwashing but having some other players doing it put some more scrutiny and less trust on that sector.”*

Expert 3 suggests that choosing a reputable investment manager who implements strong monitoring and reporting mechanisms for ESG and impact measurement can mitigate the risk of greenwashing. However, Expert 5 argues that greenwashing will always exist, especially among less honest people, and that investment decisions involve a trade-off between investment opportunities and the level of scrutiny required to avoid greenwashing.

Moreover, while liquidity was also discussed in the challenges section as a potential obstacle for impact investing, it is also important to note that it can pose a significant risk to investors. The illiquid nature of many impact investments can make it difficult for investors to access their funds easily, which can lead to reduced flexibility.

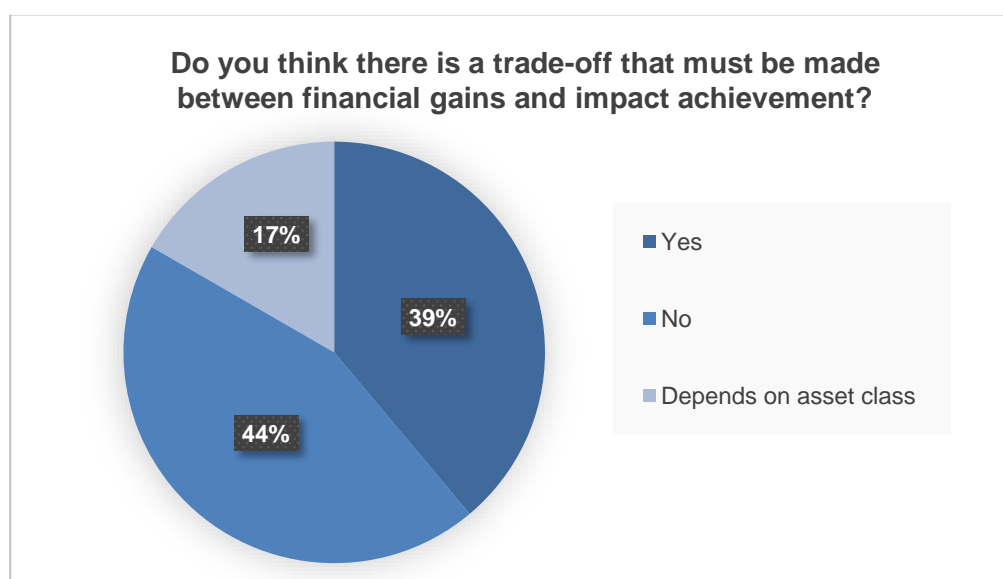
Lastly, 7 out of 18 respondents agreed that low risk-adjusted returns can be a potential risk in impact investing. As Expert 5 noted, investors may find that the returns do not meet their expectations or that the risk is higher than anticipated. Capital risk was also highlighted as a potential risk factor by some of the experts. It is worth noting that this risk is related to low return, as *“at the macro level, governments in least developed countries and emerging economies have a major influence on the returns and success of these types of investments”* as stated by Expert 10.

4.1.2.1 Trade-off

In order to address the question regarding financial gains, participants were asked a yes or no question; whether they believed that there was a trade-off between financial gains and achievement of impact in impact investment. They were then asked to share their thoughts and perspectives on the subject, which allows for a more in-depth understanding of their views on the matter.

Based on the results, the perception of a trade-off between financial returns and impact seems to be a barrier for some investors. Indeed, seven of the eighteen people responded to the question positively (39%), and eight did negatively (44%). The response of the three remaining participants was that it varied depending on the asset class. This demonstrates the complex nature of the problem, as various perspectives and factors must be considered.

Figure 13: Trade-off between financial gains and impact achievement



Source: Primary data collection (J. Ajvazi, 2023)

Among those who responded affirmatively, Expert 10 underlined the trade-off between financial returns and impact achievement in the context of energy. He pointed out that investing in fossil fuels currently offers higher expected returns than renewables, which may lead to investors prioritising financial gains over impact. This is in opposition to the idea that financial gains and impact accomplishments are always correlated, a notion some investors push to draw in more capital and more assets.

Likewise, Expert 16 stated that:

“Some impact investment sectors (renewable energy for instance) are fairly mature investment cases, not necessarily more risky or lower return than other traditional investments. In this case, the main driver for a variation in the risk/return profile vs traditional investments would be mainly geographic. On the other hand, some impact sectors are intrinsically more risky/lower return than traditional investments (education, health, bio-conservation, etc), speaking mainly about the context in developing countries.”

While certain sectors might have risk and return profiles similar to those of traditional investments, others might call for a higher risk tolerance and longer investment horizons. Expert 2 further expands upon this concept by elaborating that certain asset classes, such as private debt and private equity, may require trade-offs between financial gains and impact achievements. This is particularly true for investments in sectors such as education, which are not typically considered particularly lucrative. As a result, investors in these asset classes may need to consider balancing financial returns with their impact objectives.

Among those who answered negatively, Expert 1 argued that there is no trade-off between financial return and impact achievement, and although he observed that impact investments tend to have a slightly lower return, he also mentioned that they have less volatility. Expert 5 add that there is a middle ground wherein the pursuit of what is deemed reasonable as a financial return aligns with achievable objectives. The trade-off is not without imperfections but there exists a reasonable level of financial gains that can offset potential losses from failed investments.

To conclude, the results of the interviews indicated that opinions on this matter were divided among the survey participants. From the discussions of the experts, it appears that there is a *perceived* trade-off between financial returns and impact achievement. However, it is important to note that the trade-off varies by sector and asset class, and there also may be a trade-off in the short term, however, it can be balanced in the long run.

Despite these challenges, impact investing also offers significant opportunities for this field. The next chapter explores these opportunities that can counterbalance these obstacles.

4.1.3 Opportunities

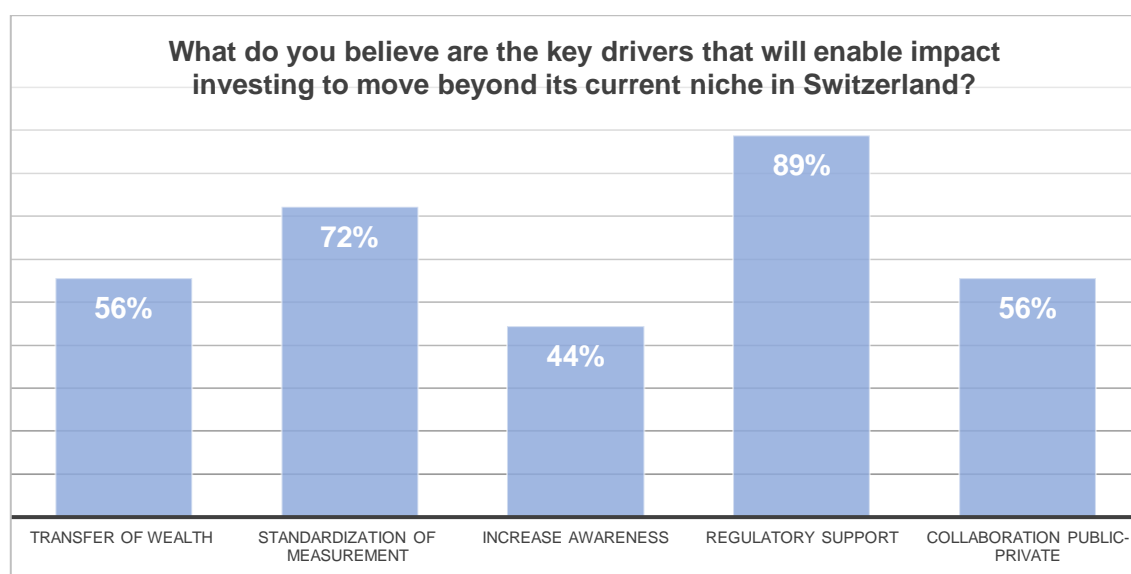
This study also investigates the opportunities perceived by the participants for the expansion of impact investing in Switzerland. The participants were presented with several options to consider, including the transfer of wealth to the younger generation (millennials and generation Z) who prioritise social and environmental impact, standardisation of impact measurement and reporting, increased awareness and education, regulatory and policy support, and collaboration and partnerships between the public and private sectors.

The analysis of the data indicated that two options, regulatory and policy support and standardisation of impact measurement and reporting, gathered the greatest percentages of support from the participants for the growth of impact investing in Switzerland, with 89% and 72% respectively.

A large proportion of participants expressed their view that favourable policies and legislation can promote the development of impact investment in Switzerland. Similarly, it was agreed that standardising impact measurement and reporting would improve transparency and credibility to the field, which could bring in more potential investors.

Moreover, the transfer of wealth to younger generations in the coming years and a tighter collaboration between the private and the public sector is viewed by an equal number of participants as potential catalysts for growth in the impact investing sphere.

Figure 14: Key opportunities for impact investing in Switzerland



Source: Primary data collection (J. Ajvazi, 2023)

In that regard, Expert 1 pointed out the need for harmonisation within the impact investing industry:

“Since we are in a niche, each player comes up with its own definitions. So, there is a need for harmonisation to popularise the message. The sustainable development objectives, for example, are a very important step in my opinion in clarifying what we are trying to achieve.”

The reference to the UN SDGs as an essential milestone in outlining the goals of the sector brings to light the potential for standardisation to promote a greater understanding and engagement in impact investing.

Similarly, Expert 3 highlighted the role of impact investing in addressing climate change, stating that *“combating climate change [...] can be another push on the environmental part of impact investing.”* This is in accordance with the rising awareness of the urgent need to address climate change and the possibility for impact investment to play a significant role in financing solutions.

Expert 10 suggested that institutional investors should increase their investments in impact investing, which could incite retail investors to also move in that direction. To that, he also added:

“Standardisation and impact assessment is going to reduce the due diligence and potentially the monitoring costs for institutional investors as well as retail investors, that could have a great role in supporting outstanding impact investment [...] regulatory and policy support [...] have significant impact, as it de-risks these kinds of investments and allows for the private sector to move in at scale.”

He continued by saying that younger generations are placing more importance on the impact of their investments. However, institutional investors still make the majority of decisions regarding asset allocation. The expert suggested that if institutional investors increase the proportion of their own portfolios in socially and environmentally responsible investments, it could encourage retail investors to do the same.

Furthermore, a particularly insightful comment came from Expert 11, who suggested that bringing together various stakeholders in the ecosystem is crucial for the growth of the impact investment industry. She mentioned the National Advisory World (NA) project as an example, which aims to gather academia, institutional investors, regulators, companies, the general public, media, and other actors to discuss ways to promote the impact ecosystem. While the project is yet to be launched, she believes that such collaborative efforts can pave the way for a more sustainable and impactful future.

To summarise, the analysis of the results revealed key opportunities and insights provided by experts regarding the growth of impact investing in Switzerland, including regulatory and policy support, as well as standardisation of impact measurement and reporting. The transfer of wealth to younger generations and closer collaboration between the private and public sectors were also recognised as potential catalysts for growth. The expert comments further emphasized the importance of harmonisation within the industry, addressing climate change, increasing institutional investments, and fostering collaboration among stakeholders.

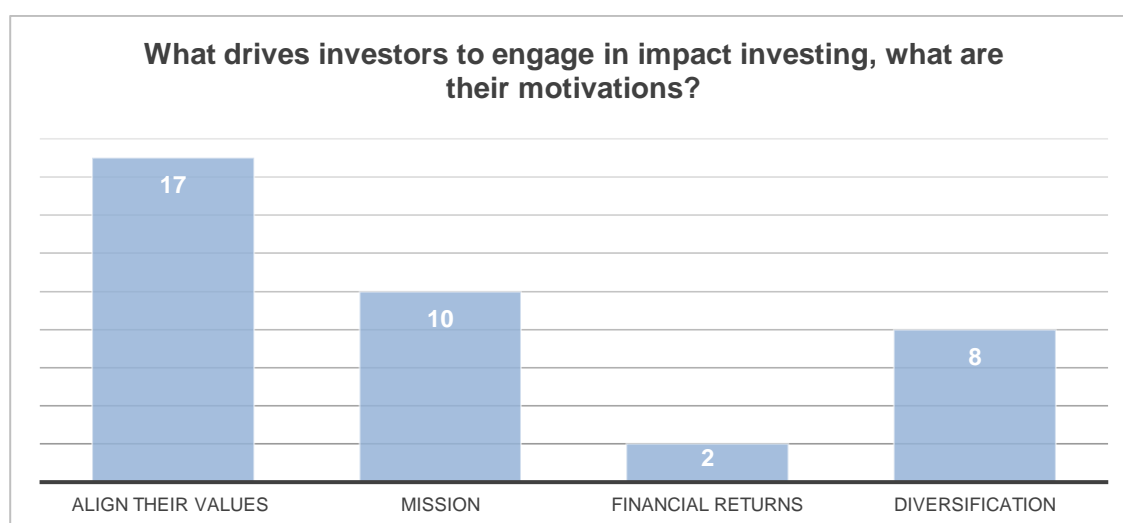
4.2 Motivations

To explore the motivations behind investors engaging in impact investing, participants were asked: "In your opinion, what drives investors to engage in impact investing, what are their motivations?" and were presented with several options and asked to select the factors that they believe drive investors to engage in impact investing. These options included aligning values with investment objectives, having a mission to achieve through their investments, financial returns, and potential diversification benefits.

By far, the majority of the participants expressed that the primary reason investors engage in impact investing is to align their values with their investment objectives. Indeed, 17 out of 18 of the respondents selected this option, demonstrating the strong desire among investors to have positive effects on society through their investments.

Alongside that, the second most commonly selected option was having a mission to achieve through their investments, with 10 respondents agreeing to it. Furthermore, 8 participants identified the potential for portfolio diversification as a key motivation for investors in impact investing.

Figure 15: : Investors' motivations



Source: Primary data collection (J. Ajvazi, 2023)

Additionally, it was noted by Expert 6 that diversification emerged as a great factor motivating investors to engage in impact investing. As a result, a growing number of institutional investors have allocated a portion of their portfolio to impact investing as they become more aware of the potential advantages of combining typical investments with impactful ones.

Building on that idea, Expert 11 discussed about the way impact investment and sustainability have been incorporated into the definition of fiduciary duty. The Expert pointed out that because of shifting market needs and legislation, managers who do not embrace sustainability are being compelled to re-evaluate their strategies. In order to demonstrate real sustainability, more sophisticated procedures are required rather than merely having an exclusion list for harmful sectors. In sum, she focuses on the significance of fiduciary duties, legislation and market demand, in increasing the motivation of investors.

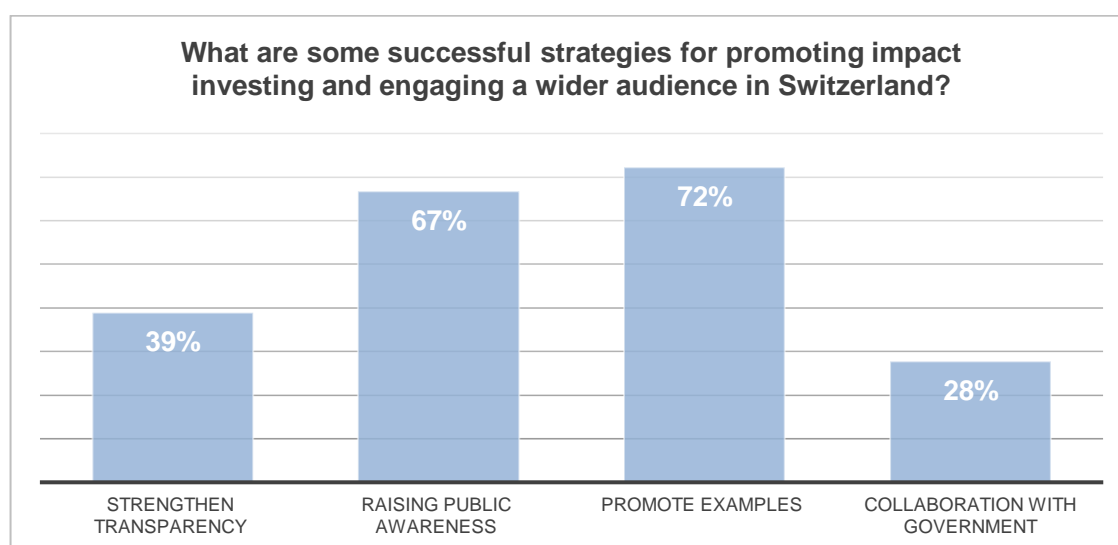
Since impact investing is still a niche market, it is essential to understand investor motivation to effectively promote impact investment and bring in more funding. As such, the motivations of impact investors are largely driven by social considerations, with financial returns playing a secondary role. It was raised that investors are also considering their fiduciary duty, which may require them to prioritise impact in their investment decisions. Therefore, these may be factors that reinforce the importance of the need for continued research and education to support the growth and success of this field.

4.3 Promotion strategies

To investigate effective techniques for promoting impact investing and attracting a larger audience in Switzerland, the interviewees were questioned about their thoughts on various strategies. Specifically, they were asked to choose between the following options: strengthening transparency and impact measurement, raising public awareness by providing resources and educational materials to potential investors, promoting examples of successful impact investments, and collaborating with the government.

72% of the participants believe that showcasing successful impact investment examples would help attract a wider public to this field. 67% of the interviewees stated that raising awareness is an important factor in promoting impact investing. 39% of the interviewees considered strengthening transparency and impact measurement to be an important strategy for promoting impact investing, while 28% believed that collaboration with the government is key to the success of impact investing.

Figure 16: Successful strategies for promoting impact investing



Source: Primary data collection (J. Ajvazi, 2023)

The qualitative analysis of experts' viewpoints on effective techniques for promoting impact investing and attracting a larger audience in Switzerland also reveals significant insights that contribute to the academic understanding of this subject.

As such, Expert 6 emphasises the importance of university engagement as a mean to raise awareness. The development of dedicated programs, courses, and certifications within universities could foster a deeper understanding of impact investing.

By integrating impact investing into the academic curriculum, universities can generate research and cultivate a sustained interest in this field, ensuring its long-term relevance.

In a similar vein, Expert 9 draws attention to the need for a paradigm shift in economic and financial theories taught at universities. She argues that

“The problem is that we are still working with economic theories that date back to the 19th-20th century. And [...] if you train someone on concepts that pushes growth, volume and production, it is complicated to see completely different models. We are more interested in promoting functional models and economy, it is completely different [from concepts of finance and economics taught at universities].”

She suggests a departure from these traditional models and calls for the promotion of functional economy and alternative frameworks that prioritise social and environmental impacts. This observation underscores the necessity of revisiting and updating educational curricula to align with the values and principles of impact investing.

Expert 9 also highlights the importance of demonstrating both profitability and impact in the context of those investments and emphasise the need to showcase how companies undergo transformation through impact investing and provide tangible evidence of the value created. Expert 7 adds to the discussion by highlighting the importance of research and data analysis in educating traditional investors about impact investing. Both experts propose that conducting in-depth research and disseminating data-driven insights can enhance understanding and familiarity with impact investing among traditional investors. By providing empirical evidence and robust analysis, this approach aims to bridge the knowledge gap and enable traditional investors to make informed decisions in the realm of impact investing.

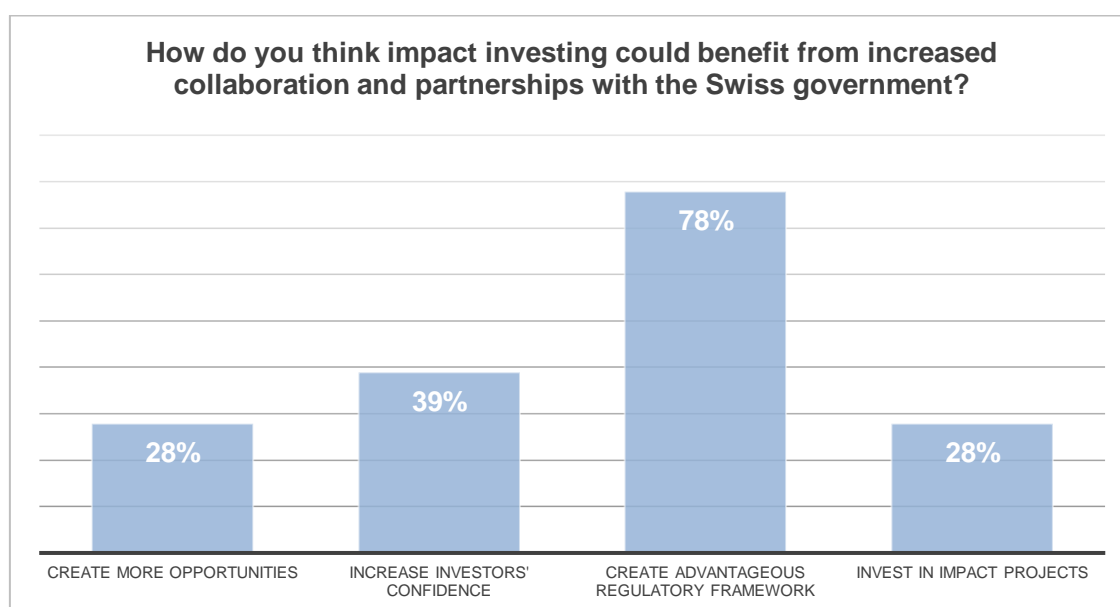
Taken together, the insights provided by these two experts show the significance of university engagement, the need for updated educational frameworks, the importance of showcasing profitability and impact, and the role of research in expanding the reach of impact investing. By incorporating these strategies, the academic and practical discourse surrounding impact investing can be enriched, fostering a more vibrant and inclusive ecosystem of impact-driven investment in Switzerland.

4.4 Role of public sector

Lastly, to gain insights on the role of the public sector in the promotion of this field, interviewees were questioned about their opinions on how increased collaboration and partnerships with the Swiss government might help with the expansion of impact investing. They were presented with four options: creating more investment opportunities, increasing investor confidence, creating an advantageous regulatory framework, and investing in impact projects.

The majority of respondents (78%) believe that promoting impact investing in Switzerland would benefit from an advantageous regulatory environment. Additionally, 39% of those interviewed said that increasing investor confidence was essential, while 28% cited increasing investment opportunities and financing impact projects.

Figure 17: Benefits of government collaboration



Source: Primary data collection (J. Ajvazi, 2023)

Expert 11 pointed out that there is a growing trend towards more sophisticated impact investing strategies in Switzerland and the European Union. This trend is being driven by new regulations that aim to promote the sustainability of investments. Therefore, investment managers are increasingly motivated to follow this trend and adopt more sophisticated approaches to impact investing.

The market demand is in fact driving this shift, as investors seek to fulfil their fiduciary duties while also meeting the growing demand for sustainable investments.

Notably, several experts highlighted the role of the Swiss government as a catalyser for impact investing in Switzerland. Expert 18 suggests that “*Switzerland can leverage its technological and regulatory environment for facilitating the deployment of impactful solutions*”. According to him, catalysing private investments into sustainable solutions for emerging markets has been a challenging and gradual process. However, the expert noted that with the increasing number of public-private partnerships and the emergence of sustainable investment strategies targeting new generations of investors, there is a growing market opportunity for impact investing that represents a changing paradigm for bettering human development.

Expert 2 highlighted that blended finance products can help attract private investors to impact investing by de-risking funds through the provision of junior trenches and other mechanisms from development banks. This can improve the risk-adjusted return for investors. Additionally, the government's development arms can provide grants for technical assistance and first-loss trenches, reducing risks and improving practices for impact investors. This can be a useful way for the government to have an impact through spending.

5. Discussion & recommendations

The analysis of the primary data collected through interviews aims to shed light on the research questions developed for this study. The comparative analysis examines the findings of the literature review with the information obtained from the interviews. The aim of this approach is to identify consistencies and discrepancies between the secondary and primary sources and to provide a more comprehensive understanding of the research topic. The analysis focuses on addressing each of the sub-questions developed for the study, using a thematic approach to organise the results and ensure a systematic and rigorous analysis of the research question.

To summarise, the study aims at exploring how Swiss impact investing can find a way out of its niche. To address this research question, several sub-questions were posed:

- a. What is impact investing, and how does it differ from traditional investment strategies?
- b. What is the Swiss impact investing landscape and what factors have contributed to the growth of impact investing?
- c. What investment instruments are available for impact investing?
- d. What are the challenges and limitations facing the growth and adoption of impact investing in Switzerland?
- e. What are the risks and opportunities associated with impact investing?
- f. What drives investors to engage in impact investing, and how do their motivations vary across different types of investors?
- g. What role can the Swiss government and regulatory bodies play in promoting the growth of impact investing in Switzerland, and what policy initiatives have been implemented to date?

With the results of the analysis, this study will provide answers to the research questions and contribute to the existing knowledge about impact investing in Switzerland.

5.1 The status of impact investing in Switzerland

To begin with, findings from both the literature review and primary data analysis reveal that impact investing in Switzerland is still a niche market and faces several challenges in terms of scaling and mainstreaming. The empirical findings of this study align with the literature review, reinforcing the statement that Switzerland stands out as a noteworthy leader in the field of impact investing, exemplifying a robust ecosystem that encompasses various sectors and regions. The presence of Swiss asset managers in the private asset domain, particularly in private debts and private equity, highlights the country's active engagement in impact investing. Key players such as Blue Orchard, Symbiotics, and ResponsAbility have contributed to the development of impactful initiatives in areas such as microfinance. Furthermore, Switzerland's largest asset managers and banks have shown a growing interest in entering the impact investing space, indicating a broader recognition of its significance.

5.1.1 Challenges

The research covered in the literature review identified some challenges that contributed to the niche status of impact investments in the country.

Firstly, risk aversion is an important factor recognised in both the literature review and empirical research. Indeed, the literature review highlights the presence of risk aversion due to the mismatch between the supply of capital for impact investment and the availability of attractive investment opportunities. Empirical research supports these claims, with experts establishing a correlation between risk aversion and the prevailing lack of awareness within the field. Based on these insights, a close association can be observed between the lack of awareness and risk aversion in the context of impact investing. A priority should be the implementation of global educational initiatives targeting potential investors and clients in order to dispel misperceptions surrounding impact investing and highlight its potential benefits. Through clear and accessible information, these educational efforts can promote a better understanding and appreciation of impact investing, thus favouring its wider adoption and maximising its potential to have a positive impact on society and the environment.

The literature review also identifies the limited exit strategies available, particularly in developing markets with underdeveloped capital markets, as an important challenge. This view is reinforced by the empirical research findings, where participants highlighted illiquidity as one of the major obstacles to the adoption and growth of impact investing.

Based on the insights shared by Expert 1, it is recommended that the impact investing industry explores solutions that can offer sufficient liquidity. One proposed solution is the listing of debt securities, which can provide greater liquidity compared to private debt instruments. It is crucial to consider the individual liquidity requirements of investors, as some may have strong liquidity needs. It is thus suggested that impact investors balance the need for liquidity with the long-term nature of impact investments, to ensure that investors can meet their liquidity needs effectively while maintaining their commitment to long-term impact objectives.

Some gaps can be observed between the challenges identified in the literature review and those highlighted in the empirical research findings: while the literature review emphasises the lack of high-quality investment opportunities with a proven track record and the difficulties in measuring impact of investment, the empirical research findings shed light on different challenges, namely limited awareness, risk aversion, and illiquidity. It is interesting to note that while a considerable number of respondents perceived the standardisation of measurement as an opportunity for growth in impact investing, relatively few identify the difficulty of measuring impact as a significant challenge. It is possible that companies have developed strategies or methodologies that mitigate the measurement challenges. Alternatively, some have prioritised other pressing issues that they perceive as having a more immediate impact on the industry's growth and development.

5.1.2 Risks

The literature review and primary data collected identified several risks associated with impact investing. Firstly, greenwashing was identified as a major risk in both the literature and the primary data, by 72% of the interviewees. The recognition of this risk emphasised its potential to increase investor scepticism and undermine the overall integrity and credibility of the industry. The negative consequences of greenwashing align with the insights provided by the literature review, which highlighted the potential erosion of trust among investors and other stakeholders (Allman, Escobar de Nogales 2015). The convergence of findings between the literature and the empirical research lends support to the assertion that greenwashing necessitates careful attention and concerted efforts to get rid of its adverse effects. To mitigate this risk, the implementation of robust regulations and guidelines specific to impact investing is necessary. Clear definitions, standards, and disclosure requirements can ensure transparency and hold investment managers accountable for their impact claims. Although very difficult to achieve,

requiring greater transparency and disclosure of impact-related information can enable investors to make informed decisions and avoid impact washing.

Second, liquidity risk emerged as a major concern in both the literature review and the empirical research, highlighting its importance as both a challenge for the industry and a risk for investors. As discussed earlier, this risk can be minimised through a few measures, such as diversifying the investment portfolio to include liquid and illiquid assets, setting clear expectations about the investment horizon and also putting in place mechanisms for trading impact investments on the secondary market.

Similarly, one approach to reducing the effects of low risk-adjusted returns may be to diversify investments across a wider range of assets, for example different sectors, regions and impact objectives. Investors may then minimise potential losses from some investments by benefiting from gains generated by others.

5.1.2.1 Trade-off

The literature review highlighted a notable divergence of opinions concerning the financial returns of impact investing, stemming from differing viewpoints on market dynamics. This discrepancy was similarly observed among the respondents in the empirical research, reflecting the multifaceted nature of the issue at hand.

Those diverse perspectives suggests that there are various dimensions and considerations that contribute to the ongoing debate, because this question raises ethical considerations and necessitates a deeper analysis of the complexities involved in achieving a balance between social and environmental outcomes and financial returns. Indeed, it requires an examination of the potential synergies, and challenges/trade-offs that arise when seeking to achieve those objectives. It also includes the evaluation of the long-term sustainability of the initiatives, as well as the potential uncertainties of impact measurement and reporting.

At the same time, there are different perspectives and positions from which the analysis of financial returns in impact investing can be viewed. When comparing impact investing to traditional investments, the notion of a trade-off between financial returns and social and/or environmental outcomes may be evident. However, when looking at different types of impact investment within the same sphere, for example by comparing investments in different sectors, the notion of trade-off decreases in importance. Assessing financial returns in impact investing requires an understanding of context and

recognises that the perspective adopted and the comparative analysis undertaken can influence the perception of trade-offs.

Based on the nuanced nature of financial returns in impact investing, it is recommended to adopt a comprehensive and contextual approach when evaluating these returns. This entails considering the specific position, context, and comparative benchmarks applied to the assessment.

5.1.3 Opportunities

In terms of opportunities for the growth and success of impact investing, the literature review covered a few determinants including the transfer of wealth to younger generations, the standardisation of impact measurement and reporting, increased awareness and education, regulatory and policy support, and collaboration and partnerships between public and private sectors.

Through the expert interviews, it was found that regulatory and policy support was the most prominent opportunity, with 89% of experts agreeing. This is in accordance with Clarkin and Cangioni (2016) who highlight the significance of a favourable regulatory framework in facilitating the expansion of impact investments, as such a framework that provides the necessary legal infrastructure to build investor confidence, ensure compliance, and promote transparency through disclosure requirements. As a result of establishing clear guidelines and standards for impact investments, policymakers can mitigate the risks associated with the sector and enhance investor trust. This, in turn, promotes greater flows of capital into impactful projects.

Moreover, standardisation of impact measurement is widely seen as an important facilitator in the field of impact investing, both by interviewees and the literature (Neil, 2021). Indeed, standardised impact indicators have the potential to streamline processes, increase focus on key indicators, and allow meaningful comparisons between different investments.

Based on these two findings regarding the importance of regulatory and policy support, as well as the need to standardise impact measurement, a combined approach of those two aspects is recommended. Integrating a supportive regulatory framework with standardised impact measurement practices can provide a mutually reinforcing approach to the impact investing ecosystem.

The GIIN has already taken significant steps in this direction by leading the development of global standards and indicators. However, the implementation of international

standards faces many challenges: the specific nature of investments makes it difficult to establish universal standards that can effectively address the diverse needs and circumstances of individual projects. On top of that, the lack of comprehensive research and data on the performance of some products further complicates the standardisation process.

In addition, the empirical findings align with the literature review, reinforcing the notion of a significant shift in investor attitudes towards sustainability and the expected transfer of wealth to younger generations (Delaporte, Schneller, Elmer 2021). Interestingly, more than half of the interviewees concurred with this observation. One expert pointed out the visible evidence of wealth transfer and highlighted the long-standing recognition of this trend by banks. This suggests that the phenomenon of wealth transfer is recognised and acknowledged in the financial industry. As mentioned earlier in the report, the recommendation to promote information and education for retail investors and financial advisors aligns with the findings from the literature, which highlighted this significant shift in investor attitudes towards sustainability and the expected transfer of wealth to younger generations.

These opportunities, if properly harnessed, can help to mitigate the challenges faced by impact investors and promote the continued growth and success of impact investing as a means of achieving both social, environmental and financial returns.

5.2 Investor motivations

In relation with the opportunities for growth and success in impact investing, this study also aims at understanding the motivations of investors to engage in this type of investment. By gaining insight into the driving factors behind investor decisions, it becomes possible to effectively promote impact investing and encourage broader adoption of this investment strategy. It can also help in the development of targeted marketing and communication efforts to better attract potential impact investors. Therefore, understanding investor motivations is an important next step in advancing the impact investing field and promoting its continued growth and success.

As such, the findings from the literature review and expert interviews reveal a convergence of motivations among impact investors. Both sources suggest that investors are driven by a combination of financial and social considerations, with a strong emphasis on aligning values and achieving impact. The GIIN survey (2020) shows that impact investing is seen as a crucial part of the commitment to responsible investing, highlighting the importance of social responsibility as a driver for impact investing. Similarly, the expert interviews reveal that the majority of investors agree that aligning their values and having a mission to achieve impact are key motivations for engaging in impact investing.

The literature review suggests that financial attractiveness, which was mentioned as a relevant element in a study conducted by the GIIN (2020), is a significant factor in persuading investors to engage in impact investing (GIIN 2020). In contrast, the expert interviews suggest that financial return is not a primary motivation for investors. Instead, the main driving factor is the potential for diversification that impact investments can provide. Financial returns are not typically the primary motivation for investors when initially engaging in impact investing. This can be attributed to the understanding that impact investing, by its very nature, does not primarily aim for huge financial gains. Instead, the appeal lies in the potential for diversification and the opportunity to align investments with personal values and societal impact.

As shown in the literature review, there is a growing interest among individuals that seek to make a positive impact through their financial decisions. The industry can leverage this motivation as a powerful tool for attracting and engaging a broader range of investors emphasising the ability of impact investments to align with investors' values and contribute to meaningful change. This approach recognises that the appeal of impact

investing extends beyond financial returns and taps into the intrinsic desire to create a better and more sustainable world.

5.3 Role of public sector

The literature review indicates that the public sector has a significant role to play in impact investing. Governments are essential in creating favourable conditions and fostering market development for impact investments. They act as capital providers and facilitators, enabling investment products that deliver both financial returns and social or environmental benefits (Wilson 2014).

In the research, 78% stated that the Swiss government's primary role in promoting impact investing is to create an advantageous regulatory environment. This aligns with the findings of Wood, Thornley, and Grace (2013), who examined the role of governmental entities and institutional asset owners in expanding the impact investing market. Their study reveals that governments can play various roles, such as “*underwriter, co-investor, regulator, procurer of goods and services, and provider of subsidies and technical assistance*”.

The cooperative relationship between institutional asset owners and policy makers can be seen in the context of fiduciary duties. Institutional investors, which are guided by fiduciary duties, are often obliged to prioritise financial returns for their beneficiaries. Governments can mitigate some of the constraints imposed by adopting regulatory and policy measures that go beyond traditional positive screening approaches, expanding the scope of fiduciary duties to encompass ESG considerations to provide institutional asset owners with a clearer mandate to prioritize “*doing good by doing well*”.

Alternatively, the Confederation can provide support through alternative means such as investment in training programmes, workshops and access to resources that improve knowledge and skills in this area, or by supporting more investment funds and platforms that focus specifically on impact investing.

While the majority of research focuses on the public sector's role in creating a conducive regulatory environment, interviewees highlighted the importance of blended finance as a catalyst for impact investing. Despite the scarcity of literature on this topic, the insights from interviewees underscore the potential of blended finance to mobilise additional resources and attract private investors to impact investment opportunities.

6. Limitations

There are several limitations inherent to this study that are worth mentioning.

First, the sample size of the study is not large enough to make a representation of the whole population in Switzerland. Moreover, despite concerted efforts to recruit interviewees from both Zurich and Geneva, achieving an equal distribution of respondents from these two locations was challenging. Consequently, only six out of the eighteen interviewees were from Zurich, comprising one-third rather than half of the sample. Therefore, it is crucial to recognize that the sample may not entirely capture the diverse landscape of impact investing in Switzerland, thus limiting the generalisability of the findings to other regions within the country.

Another challenge faced in this study was the limited time available for conducting a more comprehensive investigation that involved a larger number of participants. Since this was a qualitative study, the findings may also not fully represent the views and experiences of all impact investors in Switzerland. Additionally, a survey of prospective investors was not included, which could have offered valuable information on the demand for impact investments in Switzerland.

It is also important to emphasise that impact investing in Switzerland is a nascent field, which further exacerbates the challenges faced in obtaining a statistically significant sample size. As such, the limited availability of samples and scarcity of existing literature on this emerging topic pose significant constraints to the depth and breadth of this study. The body of literature surrounding impact investing is comparatively sparse, making it difficult to draw upon a robust theoretical framework or prior empirical research.

Furthermore, the study intentionally adopted a broad approach, by focusing on Swiss impact investing across all sectors and regions, rather than limiting it to a specific sector or a specific region, such as emerging markets. Indeed, this decision was based on the acknowledgement that the impact investment market is relatively limited in size in Switzerland. As such, this research aimed to gain an overarching understanding of the prevailing practices and perspectives of the country's field.

7. Conclusion

The purpose of this paper was to investigate the limited uptake of impact investing in Switzerland and to propose strategies to foster its wider acceptance. The study looked at the factors that hinder the widespread adoption of impact investing while identifying potential opportunities for it. The overall objective was to contribute to the promotion of impact investing as a powerful tool for addressing global environmental and social issues and advancing sustainable development, by exploring the Swiss impact investing landscape, available investment instruments, related challenges and limitations, and investor motivations in order to articulate relevant strategies.

7.1 **Main findings**

The main findings of this study reveal that despite Switzerland's pioneering role in the field of impact investing, its further expansion is hindered by several challenges. Firstly, the research shows that there is a lack of awareness among investors regarding the concept and potential benefits of impact investing, coupled with a prevalent risk aversion mindset. Moreover, the risks associated with greenwashing practices and the illiquid aspect of those investments present additional obstacles to the growth of impact investing in Switzerland.

Another significant challenge lies in the perception of a trade-off between financial gains and impact achievement. This perception may be attributed to concerns over potentially low risk-adjusted returns associated with impact investments. Such apprehensions contribute to a cautious approach among investors, limiting their willingness to fully embrace impact investing as a viable investment strategy.

However, amidst these challenges, there are opportunities for the expansion of impact investing in Switzerland. For instance, the establishment of a supportive regulatory environment, along with standardised measurement practices, can enhance transparency and credibility, making impact investments more accessible and appealing to a wider range of investors. The transfer of wealth to younger generations in the coming years, who prioritise sustainability matters, presents a strong driver for the expansion this field. As these generations become more influential in investment decision-making, there is a growing demand for investments aligned with their values, which is likely to push institutional investors to align their strategies accordingly. In connection with that, the motivations of investors play a crucial role in driving the adoption of impact investing.

Considering the practical experiences of professionals, the study reveals that most investors seek to align their financial activities with their values and to contribute to positive social and environmental outcomes.

Hence, as private investors increasingly prioritise their values, institutional investors are likely to face growing pressure to align their practices, ultimately leading to a wider adoption and integration of impact investing across the investment landscape.

Lastly, the findings highlight the need for further efforts to effectively promote these investments. One key aspect is the importance of showcasing successful examples of impact investments that have delivered both financial returns and measurable social and/or environmental outcomes. Investors could then gain a better understanding of the potential benefits and impact of such investments. Also, enhancing awareness of these types of investments across various sectors, including academia, financial institutions, and the wider public could help in this goal. Educating individuals about the purpose, benefits, and strategies of impact investing can help dispel some misconceptions and could attract more individuals and organisations to engage into impact investing.

By addressing the various factors mentioned, Switzerland can pave the way for wider adoption and mainstreaming of impact investing, thereby contributing to sustainable development goals and fostering a more equitable and environmentally conscious global society.

7.2 Future research

The author has identified future research recommendations which emerged from this study. Due to the relatively nascent nature of this field, there are many elements that could be further explored and expanded upon in future studies. For instance, this study identifies challenges contributing to the niche status of impact investments in Switzerland, but additional inquiry is necessary to explore effective solutions to overcome these challenges in future research, especially on a larger scale. Similarly, while there is multiple research that study the willingness-to-pay for such investments, it would be interesting to explore the underlying motivations and decision-making processes that drive individuals and institutions to engage in these investments. Blended finance in promoting and scaling impact investing initiatives should be considered and studied. Lastly, focus on evaluating the long-term impact and effectiveness of impact investments in achieving their intended social and environmental outcomes should be considered.

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Appendix 1: Interview Questions

1. Can you describe shortly your experience in impact investing, your organisation and your position.
2. What do you see as the current state of impact investing in Switzerland? (in terms of size, number of impact investment funds and platforms)
3. In which regions / sectors are these funds invested?
4. Do you agree that the industry is currently in a niche?
5. How would you define "niche" in the context of impact investing?
6. What do you think are the key challenges contributing to the current niche status of Swiss impact investing?
 - Lack of awareness
 - Limited investment opportunities
 - Challenges in measuring impact & lack of standardisation in the field
 - Illiquidity, long investment horizon
 - Lack of research and data on products and performance
 - Underperformance compared to other strategies
7. What do you believe are the key drivers that will enable impact investing to move beyond its current niche in Switzerland?
 - Transfer of wealth to younger generations in the coming years (millennials), who prioritise social and environmental impact
 - Standardisation of impact measurement and reporting
 - Increased awareness and education
 - Regulatory and policy support
 - Collaboration and partnerships between public and private sector
8. In your opinion, what drives investors to engage in impact investing, what are their motivations?

- Align their values with their investment's objectives (Impact investing being a crucial part of their commitment as responsible investors)
 - Having a mission to achieve through their investments
 - Financial returns
 - The potential for diversification benefits
9. What do you think are the specific risks associated with impact investing compared to those of traditional investments?
- Greenwashing
 - Low returns (lower risk-adjusted returns)
 - Liquidity risk
 - Risks related to the social or environmental objectives
 - Regulatory risk (impact investments may be subject to regulatory changes or policy shifts that can impact their performance and outcomes)
 - Capital risk
10. Do you think there is a trade-off that must be made between financial gains and impact achievement?
11. Could you share your thoughts on the expected financial returns of impact investments?
12. In your experience, what are some successful strategies for promoting impact investing and engaging a wider audience in Switzerland?
- Strengthen transparency and impact measurement
 - Raising public awareness (providing resources and educational materials to potential investors)
 - Promote examples of successful impact investments
 - Collaboration with government
13. How do you think impact investing could benefit from increased collaboration and partnerships with the Swiss government?

- Create more investment opportunities
- Increase investor confidence
- Create an advantageous regulatory framework
- Invest in impact projects

14. What are your thoughts on the future of impact investing in Switzerland, and how do you see the field evolving?

Appendix 2: List of interviewees

Respondant	Organisation	Location
Expert 1	BlueOrchard	Geneva
Expert 2	BlueOrchard	Geneva
Expert 3	Symbiotics	Zurich
Expert 4	Symbiotics	Geneva
Expert 5	Symbiotics	Geneva
Expert 6	Symbiotics	Zurich
Expert 7	Tameo	Geneva
Expert 8	Tameo	Geneva
Expert 9	Quadia	Geneva
Expert 10	World Economic Forum	Geneva
Expert 11	Women In Sustainable Finance	Zurich
Expert 12	Asia Impact Invest	Geneva
Expert 13	Baraka Impact finance	Geneva
Expert 14	Credit Suisse	Zurich
Expert 15	Gavi	Geneva
Expert 16	Symbiotics	Geneva
Expert 17	iGravity	Zurich
Expert 18	Credit Suisse	Zurich